

AGRICULTURAL CRISIS

In recent years, world farm production has increasingly outstripped effective world demand with the result that stocks have been growing and world market prices declining. The situation affects most major internationally-traded agricultural commodities. Since 1981, world wheat prices have fallen by almost one-half, while stocks have increased by 85 per cent and are now equivalent to two years' world trade volume.

The financial position of farmers exposed to low world prices has suffered seriously. Costs of farm support programs have increased considerably 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 farm support programs give to farmers. Price and income supports to farmers 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 farm policies stand out as being particularly damaging to the world agricultural economy. In 1977 the Economic Community (EC) 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 EC in less than a decade. Recent changes in US policies too, have had a dramatic impact on world market prices, for grains in particular. The US has significantly stepped up its use of export subsidies. This tends to drive world prices down even further to levels below US market prices.

The agricultural crisis has been receiving increased political attention in all countries, as is evident from:

- the inclusion of agriculture, at Canada's request, at the Economic Summits in both 1986 and 1987;

- the Canadian initiative of instituting regular meetings of the ministers of the major wheat-exporting countries;
- the creation by Australia (1986) of the "Cairns Group" of agricultural exporters;
- the inclusion, for the first time, of all agricultural policies affecting trade, in the new General Agreement on Tariffs and Trade (GATT) round of Multilateral Trade Negotiations launched last September in Uruguay;
- the publication of a major OECD study on the impacts of agricultural policies on trade.

There is now substantial international agreement that significant agricultural policy changes must be made. The OECD Ministerial has adopted a set of principles for reform with the long-term objective of allowing market signals to influence the orientation of agricultural production. The Ministerial gave impetus to the new GATT Round as the framework for achieving fundamental change. It also provided that countries refrain from actions which would worsen the negotiating climate.

The Venice Summit provides an opportunity to reinforce the OECD commitments on both short- and long-term solutions and to consider more specific means of expediting the MTN on agriculture.