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STATEMENT BY THE OBSERVER FOR THE FOOD AND AGRICULTURE ORGANIZATION

Mr. Carlos A. Wirth, observer for the FAO intended to address the session under two items of the agenda but the addresses were not delivered purely owing to lack of time. The following tests are circulated for record purposes.

A. Developments relevant to the operation of Part IV (agenda item 1(b))

Many of you are no doubt familiar with the first set of FAO projections for agricultural commodities, published in 1962, which examined the prospects for agricultural demand, production and trade to 1970. A new set of projections, to 1975 and, for demand, 1985, has been recently prepared. The provisional results have been sent to the various member governments for their comments and have been examined by some FAO commodity study groups. A full scale discussion of the results and their implications is scheduled to take place in the March session of FAO's Committee on Commodity Problems.

It would be impossible to describe exhaustively in this brief intervention the large study, which takes up a total of 650 pages in two separate volumes. We feel, however, that the implications of the projections, particularly for the trade of the developing countries, are such as to merit consideration in all discussions of trade problems and prospects. I should therefore like to take some of the Committee's time to describe briefly some of the main findings relevant to the present agenda item. I should like to stress in this connexion once more that the version of the study on which my remarks are based is a provisional one, pending the comments of FAO's member governments.

In examining the growth prospects of agricultural exports from the developing countries, principal attention was paid in the projections study to the changes in the net import demand of the high income zone, including the USSR and Eastern European countries. For most agricultural commodities, with the major exception

of meat, the exportable supplies of the developing countries were projected to be more than adequate to meet all the foreseeable demand at constant prices. The future flow of trade will therefore be largely determined by the import demand of the high income countries, which are the main importing area.

The results of the analysis are far from encouraging. On the basis of current policies and constant prices, the projections suggest an increase in the net import demand of the high income zone for agricultural exports from the low income zone amounting, in terms of annual compound rates of increase and on the basis of a high and low gross domestic product assumption, to a growth of only 1.9 per cent and 0.9 per cent a year in the period from 1961-63 to 1975. They thus suggest a severe slowing down in the developing countries net agricultural export earnings from the 1952-54 to 1961-63 period, when the volume of this trade increased at an annual rate of 4 per cent a year, and its value at a rate of 2.1 per cent. The figures are also significantly smaller than the projected rate of population growth, 2.6 per cent a year.

In an attempt to examine the effect that changes in trade and production policies and export prices might have on the rates of growth of developing countries' net exports, a set of adjusted projections were also prepared. Briefly, the hypothetical policy adjustments assumed that the high income countries would continue to adjust their production of cereals and fats and oils to the commercial demand and food aid needs, continue liberal trade policy trends with regard to citrus fruit and cocoa, and maintain their sugar self-sufficiency ratios at the 1961-63 level, while international action would be taken to maintain tea and coffee prices at their 1961-63 and 1966 levels. It was also assumed that there would be some further shift in the production of tobacco and cotton textiles to the developing countries and that the Eastern European countries and the USSR would continue to increase at a moderate rate their imports of bananas. The overall effect of the price assumptions were a reduction in the average export unit values of the commodities included at a rate of 0.4 per cent a year.

The results of these adjusted projections were only moderately more favourable to the developing countries than those of the unadjusted projections. Excluding commodities for which the developing countries would remain net importers in 1975, the total increase in export earnings during the projection period came out at 31 per cent, equal to a rate of 2.1 per cent a year. The corresponding figure for the nine years prior to 1961-63, that is, one which excludes the commodities for which the developing countries would remain net importers, was 2.8 per cent a year. The projected increase would again be substantially less than the projected population growth of the developing countries, 2.6 per cent a year.

It is clear, therefore, that if the export earnings of the developing countries from this trade are to reach rates of growth which are more in line with the requirements associated with the gross domestic product growth rates today considered desirable, far reaching changes in policies favourable to the developing regions would have to be introduced. FAO's Committee on Commodity Problems will have its first discussion on policy implications of the projections at its March meeting after it has examined their methodology and statistical results.

Turning very briefly to individual commodities, the main contributors to the increase in net foreign exchange earnings under the adjusted projections, would be - in descending order of magnitude - coffee, cereals, in particular coarse grains, cotton goods, fats and oils, roundwood, cocoa, meat, sugar, tobacco and bananas. The only commodities which would show net earnings of foreign exchange growing faster in the projection period than in the preceding period would be rice, coarse grains, coffee, cocoa and manufactures of cotton and hard fibres. There would be declines in net export earnings from all the raw materials considered, except roundwood. The largest decline, both relatively and in absolute size, would be for raw cotton. Other commodities affected negatively would include rubber, hard fibres and raw jute, although in the case of cotton and jute the decline could be offset by increased net exports of cotton and jute goods.

These global projections of agricultural trade prospects provide no more than a pattern of world trends which developing countries may take into account in the planning of their agricultural and economic development. Clearly the global prospects do not apply to all countries. Each country will plan its export programme in the light of its assessment of its agricultural resources and competitive strength, in relation to the supply of particular products to particular markets. Special attention should be given to the possibility of increasing or starting production for export of commodities which are likely to be in strong demand on world markets in the long term, such as meat, coarse grains, soybeans and roundwood, by developing countries which have the requisite natural conditions for low cost production and possess or can develop markets. But it would be quite rational for a developing country to seek increased export earnings from a commodity facing limited global prospects, if it saw good opportunities for increasing its share of the world market, subject to any existing international agreement. Such opportunities could arise from the enjoyment of special trading arrangements with an importing area; through exploiting superior technical possibilities for cost reductions; through the improvement of quality or grading, or from a favourable geographical location in relation to a growing market. It has not been possible in the projections study to make projections for different regions and sub-regions. This is a task that will be taken up in the Indicative World Plan for Agricultural Development.

Finally, I should like to discuss briefly some of the main issues of commodity policy and development which to us seem to arise from the projections. None of them are new, and on many of them action is already being taken, but we feel that they acquire heightened significance in the light of the projections study. Obviously attention needs to be paid also to policies that will facilitate the growth of trade in manufactured and other non-agricultural products, and in many cases the prospects for growth in export earnings may be better for such products. The rise in their exports starts, however, from a very small base, and high priority must therefore be given to the consideration of measures to sustain and improve the developing countries' earnings from agricultural earnings.

Some of these measures fall largely within the responsibility of the developing countries themselves. This is true on the one hand, about efforts to increase the export production of products for which the market prospects still appear good, and generally to improve export earnings through better quality; and on the other hand, of efforts to orient the agriculture and processing and manufacturing industries of the developing countries further towards the substitution of imports from the high income countries. To be successful, such a policy would require the growth of domestic agriculture at rates faster than those projected in the FAO study. Unless carefully planned in the first instance on a preferably regional basis, there is a clear danger of a conflict between policies of import substitution and those aiming at the expansion of trade among the developing countries, although the broad aim of the two is the same. The high income countries can assist the developing countries in their efforts along both of these lines, especially by permitting liberal access to processed and manufactured goods from the developing countries.

Closely related to the question of import substitution is that of diversification of production. Policies of diversification may also be viewed in the broader context of international supply management associated with commodity arrangements. In the past, the tendency among developing countries faced with the need to diversify its exports has all too frequently been to launch into or increase their output of traditional products, many of which were already in difficulties in world markets. International action therefore appears essential. The possibilities and problems involved in the case of coffee are already under study in a joint project by the International Coffee Organization, the World Bank and the FAO. Assistance to countries dealing with this problem is likely to feature more strongly in the future work of FAO. The Indicative World Plan now under preparation in the FAO will provide a broad frame of reference for such efforts.

A number of other measures, on the other hand, can only be based on action by developed countries. Considerable progress has been made in the past in the liberalization of imports of tropical products, especially under the auspices of GATT. Because of the high levels of consumption, however, the effect of further reductions in duties and internal taxation, though useful, cannot be of decisive importance, except possibly in the case of some individual products of major importance to certain specific exporters, and with regard to tropical products imports into the USSR and Eastern European countries, where the per caput consumption levels of coffee, cocoa and bananas remain far below those prevailing in other countries enjoying similar per caput income levels.

The demand for developing countries' exports would also be increased to the extent that the developed countries would be prepared to control the future growth of their own production of a number of competing products, such as grains, rice, sugar, fats and oils, citrus fruit, cotton and tobacco. Output of these and other farm products is supported in the high income countries in many ways that are impossible for the developing countries to emulate. In these circumstances the size of the net import demand in high income countries is mainly a matter of policy decision. Future policies concerning food production must of course also take account of the needs and possibilities of food aid.

With regard to temperate zone products - grains and meat - the outcome of the negotiations now under way under the auspices of GATT will clearly be of great significance for developing countries, particularly Argentina, who export these products, to the extent that they will guarantee them with continued participation in the market growth in the developed countries. In the case of sugar, the geographical location of future increases in production and the feasibility of market sharing between importers and exporters and between developed and developing countries seems bound to arise as issues in the negotiation of a new international sugar agreement.

The question of preferences to imports from developing countries is also relevant. In the discussion of this question in UNCTAD and GATT, the major emphasis has been on imports of manufactured goods. Preferential treatment for agricultural imports from developing countries which are in competition with similar products exported by developed countries would be of major significance to developing country exporters. Whatever the future for general preferences, the way is open for bilateral trading arrangements between high income importers and developing country exporters which could lead to the expansion of trade to mutual advantage. The growing recognition of the need for developing countries to expand their exports to the industrialized countries may favour this development if exportable supplies are available in developing countries under satisfactory conditions. In the FAO trade projections an adjustment of this nature has been assumed for fats and oils.

Finally, there are some policy measures which can best be taken jointly by the international community as a whole. This is true for example about international management of prices in the interests of producing countries. The scope for this is greatest in the case of some tropical products, such as coffee, cocoa and tea, which are produced almost exclusively in the developing countries and have no competitors, either natural or synthetic, in the developed importing countries. Naturally such action is faced with many difficulties, partly technical but mainly economic in nature, for instance with regard to the setting of a price range which is remunerative to producers but does not discourage consumption in importing countries, and in combining trade discipline under the agreement with sufficient flexibility to permit entry of new or previously minor producers with low costs of production. The International Coffee Agreement has so far worked with considerable success. Efforts to negotiate a cocoa agreement are still continuing, while consultations on bananas have just entered the study group phase and are taking place on tea on an ad hoc basis. It is hard, however, to see any scope for international action to maintain world prices in the case of the wide range of commodities which are subject to competition from synthetics and substitutes. Transitional arrangements to allow production rationalization or adjustments and diversification policies to be implemented might however be considered in some cases.

Although the projections do not consider the question of economic or financial aid requirements in any detail, the implication of the contrast between the very slow growth of their agricultural export earnings and the low starting levels of non-agricultural exports, on the one hand, and the rapidly rising needs for imports of both agricultural and non-agricultural imports on the other, are quite clear. In effect, if the developing countries' economies are to grow at rates today recognized as reasonable, the high income countries will have to either introduce domestic and international policies which permit a rapid expansion in the developing countries' exports, including measures such as those just discussed; or, alternatively, they will have to increase at a much faster rate than in the past several years their provision of funds for financial and food aid.

The approach adopted to food aid in the future will have an important bearing on the problem. In the base period of the projections, developing countries received food aid supplies, mainly from the United States, to the amount of just below one billion dollars a year. The future needs for food aid, and the possible institutional arrangements for expanding the multilateral part of the food aid flow, are now being examined in an inter-agency study, following the initiatives in UNCTAD and elsewhere, particularly by the Government of Argentina. It is premature to discuss the possible magnitude of such aid that will be required, but from the FAO projections, which constitute an important part of the quantitative basis of the inter-agency study, it is clear that the

food gap consistent with the postulated rates of economic growth will widen rapidly in the next ten years, and additional large quantities of food are likely to be needed in order to meet emergency needs in developing countries already operating on a narrow margin of food supplies. Because of the virtual disappearance of surplus stocks in the United States, most of the food aid supplies will have to be produced specifically for the purpose, and some form of international co-operation will have to be found to make such management of supply possible.

I apologize, Mr. Chairman, if I have taken too much of the Committee's time but, as I said earlier, the study is a complex one and not easy to summarize briefly. As I already mentioned, the projections will now be worked into their definitive form, taking account of the comments of governments and the discussions in the FAO Committee on Commodity Problems and its study groups. Within FAO, they will constitute an important basis for, and a component of, the Indicative World Plan for Agricultural Development, to which I have already referred, and will generally place the Organization's work on agricultural commodities in a proper long-term context. The preparation of such projections has by now become a regular part of FAO's work, and the data and assumptions used will be regularly reviewed and revised where necessary, so as to permit an eventual publication of a new set of projections for a later period. It is our hope that the integrated picture the projections give of the world commodity prospects will be useful to governments in their economic development planning and the formulation of their commodity production and trade policies, and that the international community as a whole benefits from them in its assessment of the need for and the shape of international commodity, trade and aid policies.

B. Expansion of trade among developing countries (agenda item 2)

In the preceding statement I have described briefly some of the major findings of the FAO projections for 1975. From the point of view of the present agenda item, their main implication is that the expansion of import demand for agricultural products in the most highly industrialized countries, which still constitute the major source of foreign exchange earnings for the developing countries, has ceased to be dynamic, because of the high levels of per caput consumption now reached, the competition from synthetics and from the rich countries' protected agriculture, and their slow population growth. Thus at a time when the developing countries' need for imports is rising fast, they find themselves confronted by sluggish growth in import demand for their principal means of international payment.

Although the national and international efforts to raise the developing countries' exports to the industrialized world, including the centrally planned countries, must not be relaxed, it is clear that in this situation increasing attention will have to be paid to efforts to expand the trade among the developing countries themselves, both within and between regions. Quantitative studies of this trade have not yet been made in such a detail as of the flows from the developing to the developed countries, which was the main object of the FAO Projections, but the recent GATT studies which are well known to all of us suggest that such trade, in both agricultural and other products, is already growing rapidly, despite many obstacles. It will no doubt continue to do so as the per caput income levels and the numbers of urban population go on increasing in the developing world. Further quantitative examination of this sector of trade will be greatly facilitated by the preparation of detailed matrices of agricultural trade among the developing countries. This work, covering all major agricultural commodities or commodity groups, both raw materials and processed products, is now under way in FAO, in the general framework of the Indicative World Plan. It is hoped that later this year the first results, for the period 1961-63, will be available.

In terms of commodities, obviously a great many products will be affected, depending on the countries participating in the exchange. The first sub-regional studies prepared under FAO's Indicative World Plan, for the Near East and West Africa, suggest, for example, that there is considerable scope for expansion of trade between the Near Eastern countries in a number of agricultural products, in particular fruits and vegetables, of which 25 and 38 per cent, respectively, are already exported to other countries of the region, as well as in cereals, oilseeds, sugar and cotton, if production is stepped up in those countries where the costs are comparatively low. The prospects are even better for a number of processed agricultural products and cotton manufactures, and, among non-agricultural products, fertilizers and farm machinery. A strong case can in fact be made for the concentration of large scale ammonia production in some of the oil producing countries of the region, for exports to countries both within and outside the region. In East Africa, for which a sub-regional study is nearing completion, the provisional report suggests particularly good prospects for intra-regional trade in a number of processed agricultural products, including in particular meat, sugar and textiles. Moreover, although the analysis under the Indicative World Plan is now, for the sake of convenience, carried out in terms of sub-regions, these do not always necessarily and for all purposes constitute the economically most rational groupings. At later stages of the study, therefore, when the sub-regional studies are integrated into a unified World Indicative Plan - and the first version of such integrated plan is scheduled for presentation in the summer of 1968 - it will be possible to take account also of the potential for trade expansion between countries in different

sub-regions. Just to quote an example, already there is evidence of scope for developing an exchange of meat, maize and oilseeds in East Africa for fertilizers produced in some of the Near East oil countries, and other such opportunities will obviously become evident as more sub-regions are studied. The completed Indicative World Plan will contain, in addition to quantitative indications, suggestions for agricultural and trade policy measures appropriate for the exploitation of such opportunities.

Simultaneously, FAO is also carrying out other types of investigations of possibilities of trade expansion among developing countries. A recent example is the joint FAO/GATT/ECA mission to a number of West African countries to look into the possibilities of expanding the trade in livestock and livestock products within the region. There has for a long time been a substantial movement of live animals from the surplus countries inland, such as Niger, Upper Volta, Mali and Mauritania to the coastal countries, in particular Ghana, the Ivory Coast, and Senegal along with sizeable imports in processed form from overseas. I do not wish to anticipate the findings of the joint report, which is expected to be ready within a month or so, but will merely point out that the prospects for a substantial increase in the intra-regional trade in these products appear quite promising provided that steps are taken to modernize the marketing methods and improve transport facilities, and, even more important, trade and payment arrangements be made which ease the access of livestock products from the surplus to the deficit countries.

Another study of related nature, though of a somewhat different scope, is that requested in 1965 by the governments participating in the work of FAO's Study Group on Rice, on the feasibility of international arrangements to increase the trade in that commodity. As is well known, some 60 per cent of the world rice trade already takes place among the developing countries, and it is here that any significant additions to that trade would have to be found. The main conclusion of the FAO study, which was examined by the Study Group on Rice last October, and of two related studies by the Economic Commission for Asia and Far East and the joint FAO/ECAFE Agriculture Division, was that the problem was basically one of economic development, as the main constraint was the limited purchasing power of the developing rice deficit countries. The problem was therefore not thought to be amenable to the more conventional commodity agreements approach.

The only lasting solution thus would seem to lie in accelerated economic development in the deficit countries. In the meantime, however, efforts are needed to increase through other means the purchasing power of the rice deficit countries. In the latter connexion, the FAO Study Group on Rice placed special emphasis on the need to analyze closely the implication for world rice trade of the proposals, originally made by the Government of Argentina and now the object of an inter-agency study, to set up an expanded multilateral food aid scheme.

As is no doubt well known to all present here, a cardinal point of the original proposal, as well as of the United Nations resolution on which the study now under way is based, is that a portion of the cash resources of such a programme would be used for purchase of supplies from developing exporting countries, to be used in turn as food aid to other developing countries. This would both make available some of the existing food production capacity in the developing world to relieve the food shortages in other developing countries, and would permit the food exporting developing countries to increase their export earnings. The commodities that might be included under such arrangements are many, as determined by the needs of the developing countries, the resources of the eventual programme and the availability of supplies. Aside from rice, obvious candidates for inclusion are wheat, fats and oils, and some livestock products.

The inter-agency study has been initiated. A first progress report will be presented jointly by the Secretary-General of the United Nations and the Director-General of FAO to the summer session of the Economic and Social Council, and the Director-General's own progress report is scheduled for presentation to the March session of FAO's Committee on Commodity Problems. These two meetings will, it is hoped, give the United Nations, FAO and the other agencies involved, guidance with regard to the next steps to be taken in this programme of studies which is expected to be concluded in 1968. It is at these later stages that the question of participation of developing countries as suppliers in the programme will be examined in greater detail. The question is clearly a complex one. It involved not only a number of institutional and financial problems, including in particular the ability of an eventual expanded food aid programme to make sufficiently long-term commitments to make it possible for the developing countries to bring existing unutilized capacity back into production, to say nothing of expanding their productive base, but also complex technical and economic questions concerning the costs and timing of alternative sources of supply. To get answers to the latter questions it is expected that a number of individual country studies may be necessary.