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POLICY REFORM IN AGRICULTURE STILL URGENT DESPITE RECENT PRICE RISES,  
SAYS GATT REPORT ON INTERNATIONAL TRADE

With agricultural trade continuing to be affected by subsidies, market restrictions and market sharing arrangements, the pick-up in many agricultural prices since the beginning of 1987 has done nothing to reduce the urgent need for major reform in trade-related agricultural policies.

This is one of the principal conclusions of an examination of longer-term trends in world agricultural trade in the second section of the GATT Secretariat's report, International Trade 1987/88\*, published today.

GATT's economists note that the rise in the share of agricultural production which is traded internationally has been much less pronounced than that for manufactures - indeed, that it generally declined between 1980 and 1986. Despite a notable increase in the ratio of trade volume to world output of agricultural products last year, that ratio was still slightly below its 1980 level (pages 46 and 47).

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\* From this year the GATT Secretariat is revising the content and schedule of its annual report on world trade. International Trade 1987/88 will appear in two volumes. The document published today reproduces the first two sections of Volume I, the printed version of which will be available later in the year. Volume II will be devoted primarily to statistical tables and charts. The two-volume set will be available in English, French and Spanish language editions, and may be ordered from the GATT Secretariat or through booksellers at a price of 50 Swiss francs.

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In a longer-term perspective, there has been an almost uninterrupted decline in agriculture's share of world merchandise trade from 46 per cent in 1950 to 13 per cent last year. This long-term decline reflects both lagging growth in trade volume for agriculture and a tendency for world market prices for agricultural goods to fall relative to those for other merchandise. Over the past four decades, the dollar value of world exports of agricultural products increased, on average, by 7 per cent a year while that of total merchandise rose by 10.5 per cent (pages 42 and 44).

Export expansion in agriculture was driven by a number of positive factors - such as reduced transport costs, improved techniques of processing and storage, productivity increases in developed and developing countries and some limited dismantling of trade barriers in the framework of GATT. However, increased exports have also been achieved through the use, by some countries, of subsidized export credits which, says the report, have often been the natural second stage of a process which starts with high-cost over-production encouraged by import restrictions and subsidization designed to benefit domestic farmers. In the view of GATT's economists, these policies are a significant factor behind the poor performance of agricultural trade compared to trade in manufactures (in terms of the ratio of exports to production), in particular in the 1980s (pages 47-50).

The report gives a detailed analysis of the growth of agricultural trade in terms of both individual products and geographical areas and countries. It shows, for instance, that in 1987 the United States continued to have the highest (12.3 per cent) share of world exports of agricultural products - though that share was reduced from 14.4 per cent in 1967 - with France (8.1 per cent), the Netherlands (7.4 per cent), Canada (5.8 per cent) and the Federal Republic of Germany (5.5 per cent) being the next largest exporters. As a whole, the European Communities accounted for 37.7 per cent of world agricultural exports in 1987 (14.7 per cent if intra-EC trade is excluded).

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The biggest agricultural importer in 1987 was Japan (taking 10.9 per cent of world imports) closely followed by the United States (10.5 per cent) and the Federal Republic of Germany (10.3 per cent). The EC took 44.5 per cent of the value of world agricultural imports (25.3 per cent excluding intra-EC trade) (pages 56-64).

Considering the reasons for the recent increases in world market prices for some products, the report comments on three important factors:

- strong economic growth in a number of East Asian economies and China which are large importers of agricultural products, coupled with extra demand in some petroleum exporting countries and increased food imports into the USSR;
- declining agricultural output partly reflecting the depressed world market prices prior to 1987 (including palm oil in Malaysia and wheat production in Australia and Canada); reduced output in the USSR and, because of bad weather, in India, parts of Africa and Bangladesh; and policy changes in some major producing areas which led to reduced support prices and supply control measures (affecting, for example, cereals production in the United States and Japan and dairy production in the European Communities and other parts of Western Europe);
- the persistent depreciation of the US dollar.

In recent months, world stocks of several commodities such as wool, cotton, wheat, coarse grains, maize, soyabeans and dairy products have declined. In the case of some products, such as soyabeans, wheat and maize, the severe drought in the United States will affect this year's crops. Together with a more general rekindling of inflationary expectations, this is reinforcing upward pressure on prices (pages 65-67).

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