

production, of co-ordinating the activities of the various donors and of improving the efficiency of financial and technical aid. The Group held four meetings between July 1975 and September 1977. At its Third Meeting in 1976 it was questioned whether the Group could indeed fulfil the objectives assigned to it by the World Food Conference, and there were suggestions that it might be abolished. The Group had recently concentrated its activities in four specific areas, viz: (i) analysis of the flow of external resources to agriculture in developing countries; (ii) the estimation of developing countries' investment requirements for food production; (iii) the identification of countries with a potential for rapid expansion of food production; and (iv) assisting food deficit countries in the preparation of national investment strategies to increase their food production. Although the Group had made useful studies in all these sectors, it had not proved itself of great value in its primary role of encouraging the flow of external assistance to food production. Accordingly, at the Fourth Meeting of the Group in 1977 it was agreed that its three co-sponsors would evaluate the effectiveness of the Group to generate new investments in food production. The Evaluation Report circulated in January 1978 concluded that the original terms of reference establishing the CGFPI were so wide as to be unattainable, given the small resources of the Group, and that assistance to developing countries wishing to develop investment strategies for food production could be given by other established agencies. The sponsors are therefore now winding up the CGFPI, although they have agreed that they themselves will help governments with the various aspects of food strategies.

V. National Policies

(i) Domestic Food Policies

A. The United States

73. The Food and Agriculture Act of 1977 re-established set-aside programmes for wheat and coarse grains in order to regulate production; it also provided for new target and loan rates to be set. An equally important provision, however, was the intention to establish a substantial wheat and feed grain reserve prior to the beginning of the 1978-79 marketing year.

74. New target and loan rates for 1978 for wheat and coarse grains provided for an enhanced wheat target price (\$ 3.05 per bushel instead of \$ 3.00) should output fall below 49.0 million tonnes.¹ The target rates in 1979-81 for both wheat and coarse grains may be adjusted to reflect changes in production costs. There is also provision for the minimum loan rates for 1978-81 to be reduced if the national average market price falls below 105 per cent of current loan rates; this is intended to keep wheat and coarse grains competitive in domestic and export markets.

75. The 1977 Act authorised set-aside programmes for wheat and coarse grains. For 1978 it was decided to introduce a 20 per cent set-aside for wheat and a 10 per cent set-aside for coarse grains. Participation in the

¹. The target price for wheat was raised to \$3.40 per bushel in May 1978 under the 1978 Emergency Farm Bill.

set-aside programmes is voluntary but is required for farmers to be eligible for loans, purchases or payments. The effect of the set-aside programmes and the later measures introduced in March 1978 (see paragraph 78) on 1978 wheat and coarse grain output is somewhat difficult to assess. On balance it seems that United States output of wheat in 1978 may be cut by 7-8 million tonnes, and that of coarse grains by 17-20 million tonnes. Even with the set-asides, if average yields are attained in 1978, United States total cereal supplies in 1978-79 are unlikely to change greatly. Any serious food shortages elsewhere could therefore probably be met from United States supplies, but stocks would fall and prices rise.

76. Grain reserves of some 35 million tonnes (or even more as the result of the decision in March 1978 to lift the ceiling of 35 million tonnes on the reserves) were to be established in the United States before the opening of the 1978-79 marketing year. These reserves, intended to act as an insurance against the severe grain shortages experienced in 1973-75, were to be constituted in three ways:

- (a) The International Emergency Reserve.
This is to consist of up to 6 million tonnes of grains acquired by the government, which would only be released for non-commercial food aid, for nutrition assistance or to meet U.S. obligations under a proposed international reserves agreement. ¹
- (b) Farmer-owned Reserve Programme.
This Programme is intended to prevent extreme price fluctuations, to assist orderly marketing, and to assure consumers in both the domestic and export markets that additional supplies will be available when prices reach certain predetermined levels. The quantities to be held by producers under this programme are substantial - at least 8 million tonnes of wheat, 17-19 million tonnes of coarse grains and 0.6 million tonnes of rice. The Programme is operated through a system of incentives and disincentives intended to influence farmers' decisions on stockholding. Extended price support loans for 3-5 years at low rates of interest are made to producers against the collateral of grain, and in addition storage payments will be made. To prevent premature sale of the reserve stocks penalties are imposed on

¹ Up to the present time Congress has not yet enacted the legislation required to establish the International Emergency Reserve.

sales below predetermined prices. Thus, for example, the sale of wheat below 140 per cent of the current loan rate or of coarse grains below 125 per cent would involve the return of all the storage payments received and possible other penalties. Equally, measures are provided to discourage farmers from retaining stocks in periods of really high prices. Wheat prices in excess of 175 per cent of the loan rate or coarse grain prices of over 140 per cent would result in loans being called in, and in a liability to pay loan interest and for the return of storage payments. Appropriate adjustment in the predetermined price levels appears to give the scheme the required degree of flexibility. By 9th June, 1978 the Farmer-owned Reserve contained 9.4 million tonnes of wheat and 3.4 million tonnes of coarse grains.

(c) A Government-owned Reserve.

Quantitatively this is relatively small. It consists of 1975-crop rice and 1976-crop wheat acquired by the CCC. Holdings in this reserve may not be sold by the CCC below the predetermined price of 150 per cent of the loan rate.

77. To summarise, the Grain Reserve appears to provide a mechanism to encourage producers to respond to the working of the market by selling their holdings in periods of supply shortages and high prices. However, since farmers own their reserves they have the option to retain them at any time provided they repay the loans. Thus in times of shortages they might hold on to their reserves in expectation of further price rises. At the same time, however, there is eventually to be a substantial International Emergency Reserve, insulated from the commercial market and wholly controlled by the Government, which can be used as requirements demand to meet commitments under any internationally agreed system of reserve stocks. Furthermore, this initiative may encourage other governments to set up similar reserves.

78. Late in March 1978 the U.S. Administration announced further measures to encourage farmers to take land out of feedgrain production, to encourage the use of wheat areas for forage purposes, and to provide further financial incentives for farmers to participate in the farmer-held grain reserve. In essence farmers would be paid to take a further 10 per cent of their coarse grain acreage out of production, while wheat growers taking part in the set-aside could use up to 40 per cent of their wheat acreage for forage while still qualifying for some production payment. Limits on the farmer-held grain reserve would be removed and interest charges on CCC loans would be waived for grain remaining in the reserve after the first year.

B. The European Economic Community

79. The average increase in agricultural prices for the 1978-79 season has been limited to only 2.25 per cent although changes in green currency rates resulted in much larger price rises in individual countries. However, this average rise compared favourably with that for 1977-78 of 3.9 per cent and no less than 7.7 per cent in the 1976-77 season. In 1978 agricultural producer prices in the Community, as in 1977 and 1976, are generally above world prices, appreciably so in many cases, whereas in 1975 a justification for the Community's Common Agricultural Policy could be found in the fact that for some commodities world prices had still been above

Community prices. In 1976 and 1977 as the result of the continuation of Community price and production policies there were again surpluses of many agricultural products, notably of dairy and livestock products and sugar, so that not only were imports from third countries restrained by duties or levies, but export subsidies were used to assist in the disposal of produce, some of which, notably skimmed-milk powder, were disposed of under the Community's food aid programme. During 1977 the Community sought to establish a common fisheries policy, but disagreements among the Member States prevented the implementation of a definitive policy.

80. During 1976 the Community appropriated 5,835 million ua for the financing of the Common Agricultural Policy as compared with 4,697 million ua in the previous year. The increase in expenditure was attributed to monetary developments involving a rise in monetary compensatory payments and to lower world prices for some products, the cost of re-structuring measures in the wine and milk sectors, and an increase in the quantity of meat acquired under intervention. In 1976, 68 per cent of the Community's budget was devoted to the agricultural sector. Support of milk products alone absorbed no less than 33 per cent of the total appropriations for the agricultural sector. By contrast, appropriations available for financing Community food aid (which is not provided from the budget of the agricultural sector) in 1976 amounted to 354.6 million ua, only 6 per cent of the appropriations for the support of Community agriculture.

81. Although the increase in producers' prices in 1978-79 was held to an average of 2.25 per cent in terms of the Community's currency, this still represents only a rather modest achievement in the effort to contain rising agricultural prices in the Community, and will have little impact on the problem of reducing the Community's agricultural surpluses. There is no evidence of any significant change in the broad agricultural policy of the Community, which continues to result in a chronic tendency to over-production for many commodities, leaving the burden of adjustment to price and supply changes to outside suppliers, and making it almost impossible for developing countries to export many CAP commodities to the Community on any assured long-term basis.

82. While Community States carry grain stocks, most do not have explicit stock or reserve policies such as that established in the United States under the 1977 Food and Agriculture Act. Nor has the Community itself formulated a general framework or fixed objectives for stocks. The Community believes, however, that the instruments for the management of agricultural markets permit it to influence the establishment and maintenance of grain stocks as required. For instance, should a new international Wheat Agreement or Grains Arrangement embody explicit undertakings to hold given quantities of stocks, any expenses incurred would probably be met by the European Agricultural Guidance and Guarantee Fund.

(ii) Food Aid Policies

A. The United States

83. The United States is the largest single supplier of food aid to developing countries, supplying about 60 per cent of the Food Aid annual target of 10 million tonnes of cereals set by the World Food Conference. The bulk of United States Food Aid is supplied through the operations of Public Law 480. In the 1977-78 fiscal year, for example, some 6.3 million tonnes of cereals are to be supplied as food aid under P L 480. However, in quantitative terms current levels of food aid are low compared with those prevailing in the nineteen-sixties when large crop surpluses were disposed of under food aid policies. Thus, while the United States provided a total of 10.0 million tonnes of cereals as food aid in 1969-70, the subsequent world grain shortages reduced this figure to only 3.0 million tonnes in 1973-74, and by 1976-77 the volume had only recovered to some 5.4 million tonnes. For the 1977-78 fiscal year it now appears that about 4.8 million tonnes of cereals will be made available under Title I of P L 480 (i.e. on concessional long-term credits) and 1.5 million tonnes under Title II (grants). Total shipments of farm commodities under all Titles of P L 480 during 1977-78 are put at 6.7 million tonnes, of which the greater part consists of grains, notably wheat. For 1978-79 it has been announced tentatively that shipments of farm products will again total 6.7 million tonnes, of which 5.1 million tonnes will move under Titles I and III, and 1.6 million tonnes under Title II.

84. Public Law 480 was extended for a further 4 years under the 1977 Food and Agriculture Act and the International Development and Food Assistance Act. Since 1975 Congress has specified that the majority of food sold on a concessional basis for aid purposes should go to countries Most Seriously Affected. The 1977 legislation laid down that 75 per cent of Title I sales should be directed to countries with a per caput GNP of \$550 or less (the poverty criterion of the IDA). Furthermore, Public Law 480, as amended by the 1977 legislation, now contains three Titles. Title I, which accounts for the bulk of food aid, provides for long-term, low-interest credit sales. Title II relates to direct grants of food aid. The minimum quantity of grant food aid under Title II was raised from 1.3 to 1.6 million tonnes for the fiscal years 1978-80; distribution of at least 1.3 million tonnes was to remain mainly with voluntary agencies and the World Food Programme. The annual ceiling on Title II donations was raised from \$600 million to \$750 million. However, in no previous year has the original ceiling been remotely approached. Title III is a new provision, established by the 1977 legislation, and is known as Food for Development. It is intended to use a part of foreign currency proceeds from the sale of commodities authorised under Title I for agricultural and rural development, including raising food production capabilities, and to improve storage, marketing and human nutrition. The total value of all agreements under Title III is to be a minimum of 5 per cent of the value of Title I agreements in 1977-78, 10 per cent in 1978-79 and 15 per cent in later years. In addition to P L 480 activities there is a relatively small ongoing food aid programme under the Mutual Security AID programme which makes certain commodities available as loans and grants.

85. United States disbursements on food aid have varied a good deal in recent years as is indicated in the following figures.

Table H - United States Net Disbursements for Food Aid

(\$ million)

<u>1970</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
888	618	728	1,266	1,210

Furthermore, the value of recent agricultural exports under the P L 480 and MSA/AID programmes barely equals the 1966-70 average of \$1.2 billion and is about a fifth less than the 1961-65 average of \$1.5 billion. This reflects the decrease in availabilities during the early nineteen-seventies. The funds made available for P L 480 Programmes (all Titles) for 1977-78 are in the region of \$1.4 billion, and it is forecast that a similar volume of funds will be available for the 1978-79 Programme. For the 1977-78 Title I Programme some 5.5 million tonnes of foodstuffs were initially allocated, valued at \$0.8 billion, but increased prices for wheat and rice later resulted in the quantity of food being reduced to 5.0 million tonnes; this compares with a 1976-77 volume of 4.6 million tonnes.

86. An important feature of United States food aid is that a very high proportion (93 per cent in 1973-76) is bilateral; in most other countries except Japan the bilateral share is much smaller and the multi-lateral proportion correspondingly higher. Another feature is that a high proportion (three-quarters of all P L 480 transactions) of food aid consists of concessional loans rather than outright grants. The loans are, however, repayable over a long period at favourable interest rates. In addition there is now the provision (Title III) that a proportion of the funds generated from local sales of P L 480 commodities can be used for Food for Development.

B. The European Economic Community

87. The Community is an important supplier of food aid, notably of cereals, skimmed-milk powder and butter oil, providing additional aid to that furnished by individual Member States. Community food aid as such is financed from the Community Budget in the form of grants. The Community's commitment to food aid in cereals arises from its adherence to the Food Aid Convention; since 1973-74 it has undertaken to supply 1,287,000 tonnes of cereals per annum. Only a proportion (although an increasing one) of the total FAC cereals commitment is supplied as Community food aid, the remainder being provided as national aid by the various member countries from their own budgets. In 1977, for example, 720,500 tonnes were provided by the Community while the remaining 566,500 tonnes came from the various Member States. The Commission has offered to raise the overall Community contribution under a new Food Aid Convention to 1,650,000 tonnes.

88. Other food aid provided by the Community is outside formal international pledges and has consisted of skimmed-milk powder, butter oil, sugar and dried egg. Currently, only the first two products are included in the regular food aid programme. The quantities supplied have varied from year to year, depending to some extent on the size of Community

surpluses, but have tended to increase, notwithstanding the reductions in 1977. In that year 105,000 tonnes of milk powder and 36,800 tonnes of butter oil were made available for food aid compared with 150,000 tonnes and 45,000 tonnes respectively in 1976. As part of its on-going food aid programme the Community also provides emergency food aid from the reserves incorporated in the annual food aid allocations.

89. Proposals made by the Commission in September 1976 for a three year Indicative Food Aid Programme for 1977-79 were withdrawn in March 1977 since some countries were not prepared to accept an increase in the volume of aid. The Programme had emphasised 4 features, viz:-

- (i) aid to be planned for a three-year period;
- (ii) the volume of aid to be significantly increased during the period of the programme;
- (iii) aid to be concentrated on cereals;
- (iv) national schemes of aid to be gradually incorporated into the overall Community scheme.

Although the Indicative Food Aid Programme has been withdrawn, it is understood that other ways of improving the Community's food aid policy are still under consideration.

VI. The Provision of Agricultural Inputs

(i) Fertilizers

90. The fall in fertilizer prices at the beginning of 1975 stimulated fertilizer consumption. As a consequence world consumption, which had fallen in 1974-75 by 3.2 per cent, recovered in 1975-76 by 9.6 per cent to a fresh record level of 88.7 million tonnes. This was about 6 per cent above the previous peak of 1973-74. Consumption in developing countries rose by 11 per cent, and was favoured by lower international prices, reductions in domestic prices, and a marked fall in freight rates during 1975. Indeed by 1975-76 the crop/fertilizer price relationship had returned to the pre-crisis level of the early 1970s.

91. Fertilizer consumption in developing countries rose on average by 8.5 per cent between 1969-70 and 1975-76, and is forecast to rise by 10 per cent per annum in the period 1974-75 to 1980-81. However, if the observed ratio between the growth rate of food production and that of fertilizer consumption of 0.23 is maintained until the end of the decade, the implied growth rate in food production would be only 2.3 per cent per annum. Since this is well below the Second Development Decade Target of 4 per cent, it is evident that to achieve this higher rate of food production, substantially higher rates of fertilizer consumption than those currently predicted will be required in developing countries. It is estimated that world fertilizer supplies will be adequate until 1980-81, on the basis of intended expansions in fertilizer production capacity, and the 10 per cent