Federal Reserve Bank of Dallas
FARM and RANCH BULLETIN
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GATT NEGOTIATORS TO CONVENE; AGRICULTURE TO BE MAJOR CONCERN

The seventh round of negotiations under the General Agreement on Tariffs and Trade will convene in Tokyo on September 12. This is the first full-fledged session since 1967, and it is expected to be the most comprehensive round since GATT was initiated in 1947. Agriculture trade will, no doubt, be a central issue and probably the most difficult item on the agenda.

The Agricultural Committee set up at the conclusion of the last round of negotiations has identified two major problems of agricultural trade. First is the fact that several countries have established artificially high support prices protected by levies, quotas, and other restrictive measures. And second, there is the problem of a lack of production controls on certain farm commodities, which—in connection with high support prices—creates surpluses that have been dumped on the world market.

Debatable points

Two major—and largely conflicting—points of view are expected to emerge at the negotiations. Efficient producers are likely to urge movement toward a more commercial orientation for world trade. On the other hand, less efficient producers will probably argue for more stable conditions, with regulated markets based on commodity agreements and minimum prices.

Another area of debate will probably be the recent enlargement of the European Economic Community to include Great Britain, Ireland, and Denmark. This will modify existing trade patterns and increase levies on numerous commodities moving to these three countries.

GATT rules recommend that such changes—where they increase duties or protection for any commodity—should be negotiated with interested supplying countries. The EEC has long held that no obligation was owed to supplying countries, although some obligation has recently been acknowledged by the EEC Commission.

The U.S. position

Agricultural trade agreements have generally been harder to come by than agreements in other areas. The United States has been a leader in the GATT efforts to liberalize trade, especially agricultural trade. However, the United States has some programs that are not consistent with this general policy, and these will, no doubt, be debated fully at the negotiations. Numerous commodities have been subject to U.S. import quotas in the past. And U.S. export subsidies and concessional sales have been sore points with several countries, especially Australia, Argentina, and Canada. The recent imposition of export embargoes and controls may also prove difficult.

Despite these problems, however, the U.S. negotiators—and U.S. agriculture—have a number of important advantages. The fact that world food supplies overall are relatively short will, no doubt, encourage cooperativeness among all participants. The United States' strength in soybeans and feed grains—two of the most sought-after agricultural commodities—will certainly strengthen the U.S. negotiating position. In addition, the United States has the greatest flexibility in production response and delivery capabilities. This was evidenced by the fact that the United States delivered record amounts to nearly every importing country before imposing its recent controls.

Other factors that should prove beneficial to the U.S. negotiators in behalf of agriculture include the discontent in Europe and Japan over

RETAIL PRICES OF SELECTED FOODS IN SOME CAPITAL CITIES, JULY 1973

	U.S. dollars per pound						U.S. dollars per dozen	
	Boneless sirloin	Pork chops	Canned ham	Butter	Broilers	Onions	Eggs	Oranges
Bonn	$4.55	$2.65	$2.16	$1.51	$0.84	$0.33	$1.10	$1.73
Brussels	3.39	1.94	3.55	1.48	1.11	.28	1.09	1.83
Canberra	1.84	1.13	1.97	.83	.78	.26	1.07	.84
London	2.99	1.34	1.44	.54	.54	.21	.72	1.24
Paris	2.73	2.11	2.83	1.56	.90	.31	1.07	1.28
Stockholm	4.76	2.39	4.25	1.25	1.19	.56	1.29	.98
Tokyo	12.04	2.51	3.68	1.36	1.03	.20	.61	4.32
Washington, D.C.	1.99	1.69	1.14	.75	.77	.39	.73	.69
Average for 14 cities	$2.86	$1.82	$2.04	$1.25	$.81	$.30	$.85	$1.06

SOURCE: U.S. Department of Agriculture

high food prices. In addition, the expansion of the EEC promises to further dilute the power of the entrenched farm bloc, which has already shown some weakening. And some concern is apparently developing within the EEC Commission over certain provisions of the common agricultural policy.

FOOD PRICE PROBLEM REMAINS DESPITE EFFORTS TO STOP IT

The problem of rising food prices has not yet gone away. And most efforts to deal with it have produced no discernible improvements. Consumer boycotts against meats—specifically beef—had little effect and now seem to have been replaced by an opposite reaction, consumer hoarding. Government production controls were relaxed to encourage production, but the subsequent price controls on wholesale and retail food prices have had a negative impact on supply.

Farmers attempted to respond to higher prices with increased output, although they found the increased costs of inputs gnawing away at their profits. The marketing channel, constrained by fixed ceilings and rising raw product prices, has had to restrict its flow in spite of rising demand. Dwindling supplies have resulted in even higher retail prices, stimulating new concern about both supplies and prices.

Competition from abroad

United States consumers want U.S. farm products. Over the last few years, however, foreign consumers have also developed strong demand for these products, and they are increasingly able to pay competitive prices. In comparison with many foreign countries, in fact, the United States still has low food prices. A survey in early July of retail food prices in 14 national capitals indicated that U.S. food prices were well below average, usually ranking among the lowest.

Consumers in the United States have long had the benefits of surplus domestic food supplies and little direct competition from consumers in other countries. But rising affluence abroad, relatively short world supplies of farm products, and devaluations of the dollar have changed this.

Signs of relief

Although food prices may never fall back to the levels of the 1960's, some relief may be in sight. In spite of uncertainties and problems of weather, politics, and costs, farmers are harvesting record crops across the board. Livestock producers have been hit severely by price controls and the high costs of feed. But removal of controls and consequent higher prices should bring response from livestock producers.

Expansion of poultry output would be the first indication of recovery in the livestock sector, due to poultry's shorter production cycle. Increases in pork production will take longer. Beef production will probably pick up some in the last quarter of this year. Production of beef has the potential to achieve and maintain a growth trend slightly higher than that of past years, aided by the continued expansion of cow herds.

Livestock producers may be somewhat reluctant to pull all the stops, however. They are well aware that there was little indication of national concern when beef prices broke in 1963 and 1964, when hog prices dropped in 1970-71, or at the times when broiler prices were at the bottom.

AGRICULTURAL PRODUCTIVITY CLIMBS AS NEW HIGHS REACHED IN 1972

Agriculture in 1972 set new records in production of both crops and livestock, in average yields, and in efficiency. Total farm output was 1 percent above 1971 and 11 percent above five years earlier in spite of difficult weather.

This general record-setting trend was not supported across the board, however. Production of grains and of fruits and nuts declined, mainly due to reduced acreages and unfavorable weather. Higher yields for some grains were sufficient to counterbalance the lower acreages and contributed greatly to improvements in efficiency. Most other crops exceeded 1971 production levels, led by cotton with a 27-percent increase.

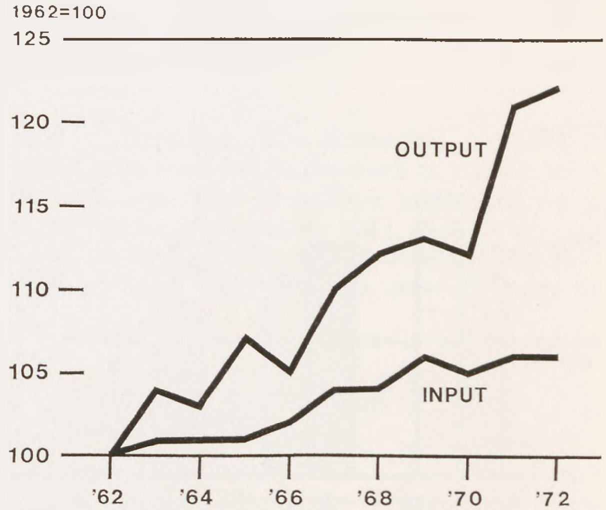
Expansion in the beef herd contributed most to the new record in livestock production, although the dairy and poultry industries made significant contributions. Pork production dropped with declining hog numbers. The sheep and goats sector performed in a similar fashion. Feeding efficiency increased for broilers but changed little for beef, pork, or eggs. Milk producers experienced a decline in feeding efficiency.

Geographically, the trend of record highs was also broad-based, but, again, it was not without exception. The Northeast showed a significant decline in production that can be largely blamed on the weather. In the states of the Eleventh Federal Reserve District—Arizona, Louisiana, New Mexico, Oklahoma, and Texas—total agricultural production advanced nearly 11 percent. The crop sector, recovering from its poor 1971 performance, expanded about 15 percent. Livestock production grew nearly 8 percent.

The total volume of farm inputs has not changed over the past several years. But numerous changes have been noted in the input mix. In general, purchased inputs have increased their relative dominance over nonpurchased inputs.

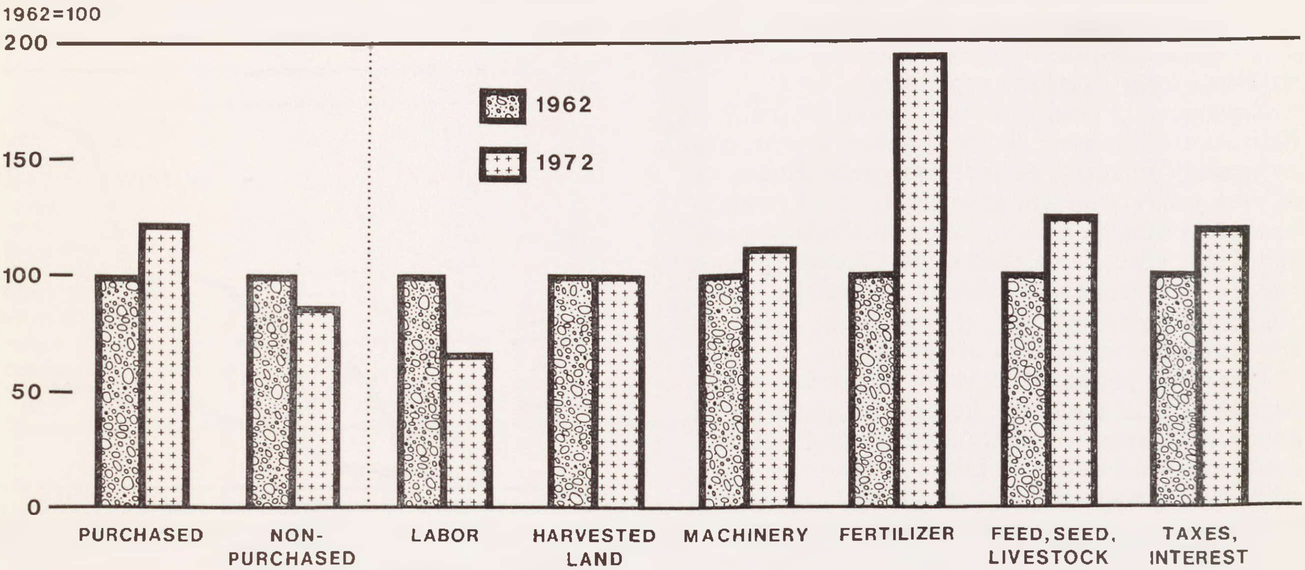
Total crop acreage harvested declined 9 million acres in 1972, mainly due to smaller plant-

WIDENING MARGIN OF U.S. FARM OUTPUT OVER INPUT



SOURCE: U.S.Department of Agriculture

CHANGES IN U.S. AGRICULTURAL INPUTS



SOURCE: U.S. Department of Agriculture

ings of grains and hay. But some crops—including cotton and soybeans—contributed additional acres to the 1972 total.

Fertilizer use remained constant, with nitrogen use increasing to account for nearly three-fifths of all plant nutrients applied in 1972. A drop in numbers of major machinery items on farms reflected the declining number of farms, as well as the increasing size and efficiency of machinery. Average horsepower of tractors purchased rose in 1972 from 77 to 78, with nearly 30 percent of the new machines rated at 100 horsepower or more. This increase raised the average horsepower of all farm tractors to 48 as of January 1, 1973, compared with 46 a year before.

The labor input to agriculture declined 3 percent in 1972 in line with a long-term downtrend. Total hours of labor fell to their lowest recorded level. But labor productivity rose 6 percent in the livestock sector and 3 percent in the crop sector. Only food grains and fruits and nuts posted no gains in labor productivity.

The real estate category of inputs increased 4 percent, due mainly to higher mortgage interest payments and losses caused by Hurricane Agnes. The input category of taxes and short-term interest also showed an increase of 4 percent.

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