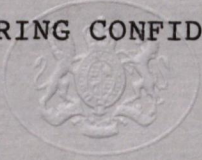


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FROM: D M Harrison

DATE: 30 April 1986

Mr Renwick

Mr Braithwaite

TOKYO ECONOMIC SUMMIT : SPEAKING NOTE ON AGRICULTURE

1. The comparative figures for American and European agricultural support in paragraph 2 of the attached speaking note were obtained by ERD from MAFF as follows:

(i) Total American agricultural expenditure is about \$56 billion. But direct support to farmers calculated in a way that is roughly comparable to that given under the CAP is about \$30 billion.

(ii) The figure of \$20 billion from European taxpayers in 1986 is solely for expenditure under the CAP, excluding national expenditure by member states. In 1980 (the last year for which figures are available) the Commission estimate that the Member States spent about \$9 billion on agriculture outside the CAP.

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European Community Department

(Internal)

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TOKYO ECONOMIC SUMMIT: 4-6 MAY 1986

SPEAKING NOTE ON AGRICULTURE

Brief by Foreign and Commonwealth Office

1. The European countries used to depend on a wide range of agricultural imports. After their common experience of war and hunger in the 1940s, they determined to make themselves self-sufficient in food. They had the will and the technology to do so. America has never been hungry. But in the 1960s and the 1970s first America, then Europe, became massive exporters of food. We are now well beyond self-sufficiency. In Europe and in America the zeal and efficiency of the farming community and the subsidies our governments have given them have led to serious problems of over-production. We have created surpluses in many commodities. Food which once was highly perishable can now be stored, adding to existing surpluses of cereals and other crops. The main cereal stockpiles are enormous: American stocks are 80 million tonnes and growing, those in the Community at about a fifth of the size are still too large.

2. The costs are considerable. American agricultural policies will cost taxpayers about \$30 billion in direct support. The US Farm Act allows for \$1bn to be spent on subsidising farm produce exports alone over the next three years. In 1986 European taxpayers will spend some \$20 billion on agricultural support (twice the size of IBRD aid flows). Together European and American subsidies to agriculture are more than three times the combined GNP of Ethiopia and Sudan. In Japan, with of course a very much lower population

taxpayers will still be spending about \$8 billion helping agriculture. Subsidies as a proportion of the value of output are often high - here in Japan they equal about a third of the value of agricultural production.

3. Our very success has created problems. Countries which can produce food cost effectively are discouraged from doing so by others attempts to dispose of subsidised surpluses on world markets. The mis-allocation of resources on a world scale is all too clear. During the 1960s and 1970s while our surpluses were being built up, cereals production in Africa fell, with consequences which are all too familiar. Over 340m people in the world still have a calorie intake 80% lower than the minimum required to be healthy (and that does not count any in this category in China).

4. Summit countries have given away some of their large surpluses as food aid. But this is not a long run solution to our own problem of excess production. Nor does it help poorer more vulnerable countries develop sensible policies for food production or establish basic food security. Over-production in the face of famine is a world problem. By attacking it at its roots we can give a lead to the world. We should give such a lead.

5. Of course we recognise the political difficulties. We have to give adequate support to our farming communities. It is necessary to help them to cope with the vagaries of weather from year to year. We all want to preserve prosperous rural communities. We want to protect the environment of the countryside for all to enjoy. But we have the opportunity to help others while helping ourselves.

6. Action to restructure agriculture has begun. We in Europe have cut farm support prices by 16% in real terms between 1974/75 and 1984/85 for example. Further reductions are being undertaken now, as are other measures not only to reduce the size of current stocks, but to make sure that they do not accumulate again in the future. Further action is going to be required, and so are parallel actions in other countries. The market imbalances have to be corrected. If we succeed in so doing it will save us money, and prevent waste. It will eliminate the anomaly of NATO subsidizing agricultural trade

with the Warsaw Pact. It will help prevent famine, and reduce frictions in trade between Summit partners. The Tokyo Summit should acknowledge the problem. We should show the rest of the world that we know and care about the effect of surpluses on food security. Our broad endorsement would encourage follow up action in the International Financial Institutions and the GATT. Discussion of agriculture in the next GATT round will be important to reduce the the risk of the further intensification of competition via the subsidisation of exports. The key must be tackling the fundamental structural problems, worldwide. [We will discuss possible policy prescriptions at OECD] A mutual and balanced approach to reducing stocks is needed. In UK we are reviewing the national actions we can take to reduce over-production. There is much to do; there is much for us all to gain.

FOREIGN AND COMMONWEALTH OFFICE

25 April 1986

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TOKYO ECONOMIC SUMMIT: 4-6 MAY 1986

AGRICULTURE

Brief by Foreign and Commonwealth Office

1. The success of agriculture has created over-supply of many temperate products in relation to demand for OECD countries. The result has been a build up of stocks in these countries- $\frac{1}{2}$ million tonnes of beef, 1 million tonnes of butter, 15 million tonnes of grain in European stores, 80 million tonnes of grain (and rising) in USA. Consumption per head in developed countries is not likely to rise significantly in the near future. Developing countries are not increasing food imports. They are short of foreign exchange, often heavily in debt, but are also attempting to improve their own food security. There has been success in Asia - cereal production per head has grown by 2% per annum in Eastern Asia, even 0.3% per annum in the poorer countries of South Asia. But in Africa in general it has fallen, and especially in East Africa by 2.2% (1970-82).

2. The climate and short term economic factors are not the cause of the underlying market disequilibrium. The imbalance between effective demand and supply, the latter generated by high agricultural support prices allied with rising technological progress, has been largely supply led. The research effort and the organisation of production in OECD countries is likely to mean that the rate of technological progress in agriculture will be maintained in future. Food surplus countries can preserve stockpiles of what were once perishable commodities (milk, meat). Innovation in agriculture is also partly responsible for success in Asia (the Green Revolution). But there has been no equivalent yet in Africa. Over production in some parts of the world helps keep world market prices depressed. This has hindered the evolution of

Responsible agricultural policies in poor countries which would help improve food security, local production has often been uneconomic in the circumstances.

3. Faced with the problem of how to dispose of food surpluses many countries have reinforced protectionist sentiment. They have also given away a small part of the surpluses as food aid. But this is expensive and is best confined to short term famine relief. If food aid is continued over the long run the effects may be detrimental to the recipients. Production may be depressed. Another measure used has been sales to third countries. These have included the Warsaw Pact, Libya and other countries. Both of these actions account for and could only be a small proportion of total disposals.

4. World wide action is needed to limit the growth of agricultural production to levels consistent with demand. Where there are surpluses a mix of price, volume control, diversification of production measures are all needed. Similar measures but in the opposite direction are required in poor countries to boost production. The coordination of policies at international level is needed to insure that world markets evolve and perform more effectively.

5. Reducing over-production of agricultural products will have financial effects on producers in both rich and poor countries alike. It may create domestic political problems too. Any social support measures introduced in response must not be disguised incentives to expand production.

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