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Briefing Paper

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THE WORLD FOODGRAIN SITUATION AND THE 1977 WORLD FOOD COUNCIL CONFERENCE

Introduction

The World Food Council held its third ministerial conference from 20 to 24 June 1977 at Manila in the Philippines. The Council's President, Arturo Tanco, commented that it was the first time that the three-year old, 36-member Council had arrived at a world action programme which he described as 'a beginning toward the solution of this most critical of the world's problems — hunger and malnutrition'.

The World Food Council grew out of the 1974 World Food Conference, called by the United Nations in response to the 1972-3 world food crisis. The Council consists of 36 member states elected by the United Nations General Assembly for a term of three years. It was charged with the responsibility of implementing the resolutions of the World Food Conference and of reporting to the UN General Assembly. As the world's highest international political body dealing exclusively with food, its main function is to combat hunger and malnutrition by co-ordinating international action, monitoring the world food situation, identifying problems, and making appropriate recommendations. It exists alongside the *Food and Agricultural Organisation (FAO)* as a smaller ministerial body. Another agency with interests in this area is the *International Wheat Council*, which supervises international wheat agreements.

The origin of the World Food Council

When the World Food Council was established in 1974 the world was just recovering from the most serious global foodgrain shortage since the end of the Second World War. In less developed countries (lDCs) especially, grain — wheat, rice and coarse grains — is a staple food important for its calorie and protein content. And at that time world stocks of grain had shrunk to less than a month's supply, and stood at their lowest level for over 20 years. The shortage of grain in the lDCs was then estimated at some 20m tonnes. At the same time the price of grain on world markets was increasing rapidly. In February 1974, for instance, US wheat cost four times as much as it did in June 1972. Thus the poorer food-deficit developing countries were hardest hit in the growing competition for available food supplies.

However, the World Food Conference and the Council it created had to face not only the short-term crisis and future emergencies but also long-term food-supply problems. The FAO estimated that nearly 500m people are 'permanently hungry'. Food production, increasing at some 2% per annum, was only just keeping pace with world population growth.

The conference advanced various proposals, including the following which have been implemented:

- (1) The long-term objective of raising food production was given priority, and to this end the setting up of an *International Fund for Agricultural Development* with \$1bn[†] from the industrialised countries and the rich oil-producing nations was recommended. The fund came into being in December 1976 when the target sum was finally raised. It will finance projects and programmes specifically designed to expand or improve food-production systems and to strengthen related institutions within the framework of national priorities and strategies, especially in the poorest food-deficit countries.
- (2) A 'global information and early-warning system of food and agriculture' within the FAO was also established by the World Food Conference. It is designed to provide accurate assessments of crops throughout the world in order to give adequate warning of changes in the food situation. The head of the FAO, Edouard Saouma, advanced the view that the system would 'undoubtedly give the world a better chance of seeing where dangerous food situations are likely to arise'. However, the effectiveness of the system is impaired by the failure of the Soviet Union (which is not a member of the FAO) and China to co-operate.

The present situation

In contrast to the situation outlined above, the 1977 World Food Council ended its third ministerial conference at a time of plentiful food supplies. In February 1977 the US Department of Agriculture estimated world grain production (including rice) at a record 1,441m tonnes in 1976. This does not mean that the world's population is adequately fed, but that resources for

* The Institute is limited by guarantee.

† Throughout this paper 'billion' (bn) represents thousand million.

feeding it are now available. The current problem is distribution, largely arising from the lack of sufficient income in ldc's to buy the grain they need.

Wheat

According to the International Wheat Council, world wheat production in 1977 may be within the range 390–400m tonnes. This would be 17–27m tonnes (4–6%) less than the record of nearly 417m tonnes in 1976 but still more than in any other year. Such a volume should be ample to meet projected consumption and trade requirements in 1977–8. Forecast imports for 1977–8 are 66–70m tonnes, which would be close to the all-time trading record in 1972–3 of just over 68m tonnes. The large projected increase – some 10–17% – over the 60m tonnes imported in 1976–7 is mainly a result of the unprecedented volume of projected purchases by China. It will be possible to meet import needs both because of good production in 1977–8 and because the 1976 record wheat crop has resulted in increased stocks. Carry-over stocks in the five major exporting countries are now estimated at 56m tonnes, nearly 50% more than a year ago and the highest since 1970–1. These stocks are projected at the end of the 1977–8 crop years at between 55m and 60m tonnes. So even if demand were to be greater than forecast, there should not be any difficulty in meeting it from existing stocks.

World consumption of wheat is gradually increasing (by 10.7% over the last seven years), the rate of growth being particularly high in ldc's. About 30% of world wheat consumption (ie over 110m tonnes) is within ldc's, nearly all of it for direct food use. Domestic production satisfies about 70–80% of the needs of the ldc's taken together. The balance, which is imported, represents half or more of world wheat trade. The forecast decline in ldc's production, from 95m tonnes in 1976 to 83–85m tonnes, is likely to result in some increase in their imports compared with 1976–7. The extent of this increase, however, may be limited for two reasons. First, certain ldc's, like India, have built up their foodgrain stocks during the present crop year. Second, some countries, especially the least developed, have experienced increasing balance-of-payments problems in recent years. Thus they are likely to encounter difficulties in financing their import needs even at present low prices (these now stand at about \$2 a bushel against \$5 several years ago). The food requirements of many ldc's will also partly depend on the outcome of the rice and coarse grain crops to be harvested towards the end of 1977.

In developed countries, on the other hand, changes in wheat demand from year to year arise principally from variation in the amounts consumed as animal feed. This depends on the size and quality of the domestic wheat crop, the livestock population, and on the price relationships between wheat and other foodstuffs. Considerably more wheat is expected to be used for feed in the USA in 1977–8 than in recent seasons.

Rice

The 1976 world paddy harvest (mainly for trade and consumption in 1977) is estimated at 345m tonnes, 3m tonnes below the 1975 record. The decline in output was largely because of reduced yields owing to weather

conditions. Consumption has risen in all ldc's as a result of the relatively easy supply conditions which existed after 1975. International prices were much lower in 1976 than in the previous two years, and real prices have fallen considerably, given the high rates of inflation. Exports in 1976 increased by 15% over the previous year to a new post-war record of 8.2m tonnes, and world export availabilities in 1977 almost balance import requirements. There was an expansion in the volume of world rice trade in 1976, by some 15% in comparison with 1975, and ldc's were the biggest importers. The most significant change in the export pattern was the 75% increase in exports from ldc's, particularly those in the Far East. In 1976 rice exports from Thailand nearly doubled, those from Burma doubled and those from Pakistan rose by over 50%. Outside the Far East, Brazil demonstrated the greatest change, again becoming a sizeable exporter of rice after having been a net importer in 1975. Chinese exports returned to the level recorded for 1968–72.

Exports from developed countries remained virtually unchanged. The record harvest allowed rice stocks to be built up from the very low levels of 1973–5. World carry-over stocks of rice (excluding China and the USSR for which figures are not available) were estimated at 17m tonnes in 1976, 4m tonnes more than a year earlier. On balance, according to the FAO, world carry-over stocks (excluding China and the USSR) may decline by some 16m tonnes. This is largely because of a reduction in stocks in Bangladesh and a likely reduction in countries like India, where the shortfall in the 1976 crop is relatively large and consumption is expanding. The overall world rice area is estimated to have increased slightly to over 140m hectares.

Coarse grains

(These include maize, barley, sorghum, millet, oats, rye and mixed grains.) World coarse-grain production rose by 54m tonnes in 1976 to a record 715m tonnes, 6% above the previous record. The season was marked by a record maize crop in the USA, and the recovery in the grain harvests, particularly of barley, in the USSR. Reflecting the increase (some 73%) in the USSR's output, production in the centrally-planned countries expanded by 25%. In the ldc's, where coarse grains constitute a staple food, production increased by nearly 3%. Developed-country production declined marginally. World coarse-grain production in 1977 may be near or a little above the 1976 record of 714m tonnes, provided weather conditions in the main producing countries, particularly the USA, are favourable. Consumption of coarse grain is expected by the FAO to increase by 5%. In 1976–7, most of the expansion resulted from increased use of grains for feed. In several African and Latin American countries consumption of coarse grains as human food was expected to decline after poor harvests. Consumption as feed is likely to rise in most centrally-planned and developed countries. The overall trade volume in 1976–77 has fallen some 3% short of the previous year's record, reflecting the improved supply position of the USSR. Imports into the ldc's declined by 1m tonnes but those into Europe rose after drought damage. Exports from the ldc's increased in contrast to those from the developed countries, which decreased. As a result of the reduced value of trade, and lower prices, the total value of coarse-grain exports fell in 1976, the

relative decline being most severe for the ldc's. Carry-over stocks outside the USSR and China were expected by the FAO to increase by 13m tonnes to 59m tonnes, some 15m tonnes lower than in 1971–2. The stock increase is expected to be confined almost entirely to the USA.

Falling prices and farmer response

So there now exists the world's biggest grain surplus of the decade, and countries may add to their grain reserves instead of having to use them to feed themselves. The prime reasons for current increased supplies lie in good weather and intensive-sowing efforts.

However, farmers in the USA – a group of considerable influence as providers of the world's largest granary – are not pleased with the low prices which have been produced by the present grain surplus. In Chicago – an indicator of the world market – prices are 75% of those a year ago. The recent price decline has eroded and at times reversed the traditional price differentials between wheat and maize and also altered the price relationships with other feedstuffs like soyabeans. Cash prices for wheat were lower than those for maize for several weeks in May and June 1977. All this has led to pressures upon the American Government from the powerful US farm lobby. Much of the already harvested wheat is being withheld from sale by farmers who feel that the market price is too low and are waiting until it returns to a higher level. And now President Carter has proposed that America's farmers should take out of production one-fifth of the 65–70m acres they normally plant with wheat. It is estimated that this reduction could cut output during the coming season by around 20m tonnes. The President has also proposed creating a stock of 30–35m tonnes of grain. To encourage producers to participate in the programme, storage costs are to be paid by the Government and interest rates for the Federal loans can be adjusted or waived. Feedgrains acreage may also be cut by some 10%, but that decision will not be taken until the corn harvest has been gathered. So world wheat areas for production in 1977 will be lower than the record of 236m hectares in 1976 – the first reduction in acreage since 1972. The only one of the five major exporting countries where an increase is expected is Australia. In the others poor planting conditions or the reaction of producers to current price levels – or a combination of the two – seem to have led to a considerable cut-back in acreage under production.

Results of the 1977 World Food Council Conference and future prospects

Despite these problems, the present grain surplus has provided a breathing space during which attention can be given to the long-term food situation: production, stockpiling and the equitable distribution of food. The challenge being presented by the World Food Council is to take advantage of the present surplus to guarantee secure supplies for the future. As the Manila Communiqué puts it: 'We [the Ministers and Plenipotentiaries of the World Food Council] are concerned . . . that there is no assurance that the improvement of the world food supply situation will continue'. After intensive debate, the Council has agreed on a 22-point programme intended to 'eradicate world hunger'. The points incorporated

in this programme may be summarised in terms of three main recommendations.

(1) World Food Security

In order to ensure adequate world food reserves the Council recommended that countries with accumulated grain stocks set up national reserves as soon as possible while international negotiations are under way to develop an adequate world food reserve programme. The aim is to achieve an international system of nationally-held reserves as well as to make a contribution to price stability. The details of the plan will be worked out as part of a new *International Grains Arrangement*, designed to include rice together with wheat and other grains. The present *International Wheat Agreement* of 1971 has been extended by Protocol until 1978, so a new agreement is unlikely before then. Objectives of the 1971 agreement – which is administered by the International Wheat Council – include contributing to the stability of the international wheat market and providing a framework for the negotiation of provisions relating to the prices of wheat.

However, the concept of internationally co-ordinated national reserves – agreed at the conference – has been the subject of widespread criticism, and its form is far from settled. For instance, the autonomy of the controlling agency is open to question. Ldcs are particularly anxious that the agency should be independent of control by producer interests. Other problems include the provisions for pricing, the question of a so-called 'triggering mechanism', ie when to act, and what powers a central authority would have to release the reserve for use in an emergency. There is also need for a procedure for inspecting and monitoring national stocks together with assurances about access to them; while the whole problem of cost sharing is a difficult one – in terms of the initial costs of creating the stock and the insurance premiums. Storage costs are high – estimated at \$10–20 per tonne per year – as is the administrative cost of continuous turnover – the replacement of old stocks by new in order to maintain quality.

A key factor in the negotiations will be the attitude of the US government to market regulation. The USA has traditionally been opposed to this, both for ideological reasons related to a belief in the free market and because there are clear advantages, both political and economic, when prices are high and export markets are strong, for the world's largest grain exporter to be in a market free from controls. However, the new Democratic administration, given the present food surplus, has now placed the USA officially behind efforts to regulate the grain market. Agriculture Secretary Bob Bergland has proposed an international food stockpiling system to check what he called the 'boom and bust' in food prices and supplies. He argues that it is against the interests of both developed countries and ldcs for half the world's wheat to be controlled by the USA, and he advocates an international system with costs shared by consuming and producing nations. This would have the effect of cutting US costs considerably.

The conference also agreed that donors should pledge support to the creation of an *International Emergency*

Reserve of 500,000 tonnes of cereals by the end of 1977. The World Food Council President said that the aim should be to build up a reserve of about 45 days' supply of global food consumption to meet sudden emergencies, with the cost being shared equally among producers and consumers. The USA has already announced a contribution of 125,000 tonnes of grain towards the reserve, and another 85,000 tonnes are coming from Sweden, the Federal Republic of Germany, and Norway. Canada and Australia are also committed to make a contribution.

(2) Increased Aid to Poorer Countries

The Manila Conference programme further recommended increased food-related aid to poorer countries. It was agreed to make a special effort to achieve the minimum World Food Conference target of 10m tonnes of grain per year in food aid, beginning in 1977–8. Food aid has been variable and below this level since 1973. The need for forward planning of food-aid supplies by all donor countries was also stressed. It was further decided that international agencies should give top priority to improve nutrition programmes. The Council's conclusions on both food aid and nutrition are, however, open to question. The possible effect of food aid on domestic food production should be taken into account. And there are problems about over-emphasising nutrition – for instance this can lead to distortion in the use of food aid. The Council's Canadian spokesman, Roger Bull, said that perhaps the most important element of the programme was the appeal for immediate agricultural aid to developing countries to enable them to increase their food production. The Council set a target of at least 4% annual growth in such food production – double the present rate – to be stimulated by about \$8.3bn of assistance on easy terms to ldc's. Of this amount about \$6.5bn should be made available as concessional loans to food-priority countries. This target raises two problems: first, the achievement of the financial goals themselves; secondly, the translation of the money into resources capable of achieving the acceleration of production in ldc's.

However, there is a wide diversity of food needs among the ldc's. Some, like the oil-rich countries, are wealthy and able to pay for grain imports. Others are self-sufficient in food, and a few like Argentina and Thailand, are net exporters. Many are extremely poor, are particularly prone to short-term food crises, and face long-term problems of malnutrition and hunger however plentiful world food supplies might be. Among these are the densely populated Asian countries like Bangladesh, India and Sri Lanka, the Sahelian countries of Africa, and Tanzania. The 1974 World Food Conference calculated that during the food crisis these were the nations most in need of food. And all these countries are included in the United Nation's list of 'Most Seriously Affected' (MSA) countries. They face the likelihood of the largest food-import-financing problems in the future. So the main food problem is really the poverty of these ldc's. The FAO has calculated that the expected divergence between the growth of production and population in the ldc's will mean a movement towards greater dependence on food imports. Net grain imports, they estimate, will rise from a current 20m tonnes to 85m tonnes in a normal crop year in 1985. Many grain-importing ldc's will not be able to finance such heavy imports even when

sufficient grain is produced, if it is sold at free market prices. So the overriding problem is to raise the capacity in these countries so that they can afford to pay for the grain they need.

The FAO describes the present position in MSA countries as follows. Their increase in food production is lower than in other ldc's, growing at an average annual rate of only 2.1% in 1970–76 as compared with 2.7% in less-developed market economies as a whole. On a per caput basis, food production in the MSA countries declined by 0.4% a year in 1970–76. In Africa the average rate of increase in food production for this period was much lower than the rate for any other underdeveloped region. It declined in five African countries (Ethiopia, Ghana, Gambia, Senegal, and Tunisia) in 1976. Grain production in the MSA countries (including rice as paddy) increased by only some 2% in 1976 to 225m tonnes. The aggregate cereal import needs of some of the larger MSA countries in Asia (Bangladesh, India, and Pakistan) are expected to be 5m tonnes lower in 1976–77 than the previous year, reflecting stocks and import restriction policies as well as increased production. However, owing to crop shortfalls largely caused by unfavourable weather, many other countries have larger import needs, and the remaining MSA countries together need to import some 15% more than in 1975–6. The total 1976–77 grain import requirements of the MSA countries are now forecast at 15.7m tonnes, in comparison with actual imports of 18.8m tonnes in 1975–76.

(3) Wider and Freer World Trade

The World Food Council recommended wider and freer world trade which, it argued, would contribute to the solution of food problems. All countries, particularly the developed countries, it stated, should 'make serious efforts to stabilise, liberalise and expand world food trade, thereby facilitating increased food production in developing countries, stimulating agricultural exports from developing countries, increasing their access to food imports and assuring stability of those imports, taking fully into account Resolution XIX of the World Food Conference'. Resolution XIX called for increased emphasis to be given to the food trade problems of the ldc's. To the extent that this concerns liberalised access to rich-country markets, it would benefit only the group of ldc's with surplus food for export, and not those deficit ldc's who are in need of food themselves. Some of the surplus ldc's' trade problems derive from the protection given by developed countries to farming which has produced a high degree of self-sufficiency and surplus stocks. It is often argued that this has reduced the export markets for such ldc's and also contributed to the instability and unreliability of the markets. However, the assumption that trade automatically improves stability is open to question.* Moreover, liberalisation of food imports by developed countries might lead to an increase in international food prices which would be damaging to the importing ldc's. Nevertheless, the World Food Council programme sought an improved framework for the conduct of trade. This framework would, where possible, give surplus ldc's special and more favourable treatment and should minimise export and import restrictions – including particularly those which adversely affect their supplies or food exports. There was some disagree-

* For a critique of the conflicting views on the role of trade in development and an assessment of the choices open to developing countries in this area, see *Trade and Developing Countries* by Kathryn Morton and Peter Tulloch, ODI/Croom Helm, 1977 (£4.50 paperback, £9.95 hardback).

ment on this point however, since the European Community expressed reservations about opening up its markets to imports from ldc's in view of its policy of giving EEC farm products preference over competitive imports. Few changes are likely to emerge since the Community succeeded in passing an amendment which made it clear that developed countries themselves would decide how far to open their markets.

Conclusion

The World Food Council's programme was scheduled for submission to the United Nations General Assembly session which began in September 1977. Thereafter it will be up to national governments, especially the major grain-producing countries, to take action. Although the Council itself has no power to implement its own recommendations, some are likely to be taken seriously by the national governments involved. This is partly because the programme represents a consensus among the world's most powerful nations including the Soviet Union, which attended the World Food Council for the

first time, and the USA under a new administration. A desire for market stabilisation, secure supplies, and price control in the present surplus-food situation combine to make it in the interests of the developed countries to seek some solution.

However, the problem of food supply is part of a much wider problem of development. For instance, the 1972-3 world food crisis is best seen as a coincidence of several crises: an increasing population needing more food, the growing dependence of ldc's on food imports, fluctuations in physical supply and demand (like the unexpectedly large grain imports of the Soviet Union in 1972 which caused such disruption in the market), localised famine, and above all persistent malnutrition even in those ldc's where real incomes are rising. As the Manila Communiqué declares, 'We recognise that rapid economic developments supported by appropriate social and economic reforms within countries will be required to overcome poverty. Nevertheless, the waste of human potential involved in continual hunger and malnutrition makes it imperative that attacking these problems cannot await the slow process of overall development'.

Table 1. World grain statistics (million tonnes, July/June trade years)

	1971/2	1972/3	1973/4	1974/5	1975/6 ^a	1976/7 ^b
<i>Production of cereals</i>	1,306	1,270	1,371	1,327	1,361	1,477
Wheat	344	337	371	355	352	416
Rice (paddy)	309	297	323	320	348	346
Coarse grains ^c	653	636	677	652	661	715
<i>International trade^d</i>	108	133	137	133	146	137
Wheat and wheat flour	52	68	63	63	67	60
Rice (milled) ^e	8	8	8	8	7	8
Coarse grains	48	57	66	62	72	69
<i>End-of-season stocks held by major exporters</i>	113	76	63	59	68	92
Wheat ^f	52	33	30	32	38	56
Rice (milled) ^g	5	3	4	4	6	5
Coarse grains ^h	56	40	29	23	24	31

a Provisional

b Estimated

c Comprising maize, barley, oats, sorghum, rye, millet, and mixed grains.

d Excluding intra-EC trade

e First Calendar year shown

f Argentina, Australia, Canada, EC and the USA

g Italy, Japan, Pakistan, Thailand, and the USA

h Argentina, Australia, Canada, South Africa and the USA

Source: *IMF Survey*, vol 6, no 14, 18 July 1977.

Table 2. World wheat imports and exports: 1977-78 forecasts (m tonnes)

	Exports	Imports
Asia:	—	29.8
China		8.0 – 9.0
Japan		5.4
India		0.5 – 1.5
Pakistan		0.4
Africa:	—	10.5
North Africa		4.5
Egypt (Arab Rep of)		4.0
W Europe	7.0	7.0
EEC	7.0	5.0
S America	3.0 – 4.0	6.5
Argentina	3.0 – 4.0	
E Europe	—	5.0
USSR	3.0	4.0 – 5.0
Australia	9.5	—
Canada	12.0 – 13.0	—
USA	27.0 – 28.0	—

Source: International Wheat Council, *Wheat Market Report*, 24 August 1977.

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