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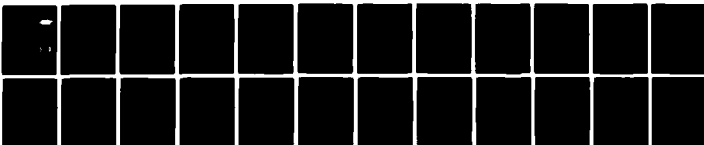
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⑥ WORLD FOOD CONFERENCE:
ISSUES AND PREPARATION FOR CONFERENCE

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PART ONE

WORLD FOOD CONFERENCE: ISSUES AND PREPARATION FOR CONFERENCE

Introduction

The World Food Conference scheduled to convene in November, 1974 in Rome can be the occasion of empty rhetorical debate in turn benign, acrimonious, ritualistic and seemingly endless; or it can become a convocation of representatives of the World's nations seriously concerned in establishing a meaningful framework for intensified and possibly new modes of international cooperation in a basic area of common concern.

If the U.S. is ready to seriously face the issues in its preparation for the Conference and assume an affirmative role, other key countries, in the developed and less developed part of the world, are likely to follow its leadership and the chances of a productive conference should be measurably enhanced.^{1/}

The times are propitious for such a role. As a result of the wide spread production failures of grain and the convulsions in the world grain market over the past two years there has emerged a convergence of concern among rich countries and poor on the issues that are likely to engage the Conference.

The broad questions that must be considered for a useful formulation of these issues can be put as follows:

- 1) What are the prospects and implications of world food grain supply and demand trends?
- 2) How can world trade in food best insulate itself against vacillations in supply due to recurrent weather failures?
- 3) What role can Food Aid assume in the changing world food situation?
- 4) What are the implications of trends in food supply and demand for the agricultural development policies and strategy of the world's developing countries?

The present report considers current thinking and work inside and outside of the U.S. Government that bear on these questions. Its objective in doing so is to help clear the ground for effective U.S. preparation for the Conference.

I. Projection of Trends of Grain Production and Consumption

A. The FAO

FAO's third set of World Commodity projections were completed in 1971. In contrast to the earlier studies that looked ahead 20 years, the present study confines itself to ten years on the grounds that trend projections under the constraints imposed - constant prices and policies, a single set of projections of population growth, GNP and technological innovation - would not be too meaningful beyond ten years. However despite this sensible limitation, world grain production and demand, less than two years after the pro-

¹ See Part Two.

jections were completed, have rendered questionable a principal conclusion of the projections: that the dominant characteristic of the world grain market in the 1970's would be large and increasing production surpluses; and that the principal international problem would be the adoption of appropriate policies to adjust for such surpluses. Instead, at least for the remainder of this decade, the principal problem may well be the need for policies to cope with a relatively tight world grain market.

The FAO trends show world production of the basic cereals, used directly by the world's population for food consumption or indirectly as animal feed wheat, rice, and coarse grains - exceeding market demand over the decade. If prices and policies remained unchanged, by 1980, this surplus production would be at the rate of 69 million tons a year, with world production of grains at 1,293 million tons, world demand, 1,224 million tons, export availabilities 162 million tons and import requirements, 94 million tons.^{2/}

In 1972/73 crop failures in major parts of the world, including the Soviet Union, resulted in world grain production of 1,136 million tons, a fall of 40 million tons, (5%) from the production of the proceeding year. Nevertheless an increase in world demand to 1,174 million tons was met but at the cost of a severe drawdown of grain stocks and a more than doubling in the world price of grains. For the LDC grain importing countries, the increase in grain prices and freight rates increased their cereal import bill by almost \$2 billion.^{3/}

In 1973/74 production of grains, as estimated by the USDA is likely to be 1,230 million tons, (only 5% less than projected for 1980 by the FAO) and world demand, 1,232 million tons.

These developments indicate something much more than a deviation from the FAO projected trend because of weather failures. Chronic tightness of supplies rather than surpluses may well be a more apt trend projection for the 1970's. However the FAO, while recognizing this, is not prepared to undertake a revised set of projections as part of the preparation for the World Food Conference. A major shortcoming of the 1971 projections was in not systematically dealing with the feedgrain - livestock relation through a relaxation of the assumption of constant prices. This was in part the reason for what appears to be a serious underestimating of the strength of the derived demand for feedgrains. However, before setting up a new model the FAO staff believes that what is needed is a better base of empirical data on this relation - particularly for the developing countries and the Soviet Union.

This presumably will be done in time for the next set of Commodity Projections scheduled for 1975. In the meanwhile, for a reappraisal of the trend outlook through 1980, it will be necessary to look elsewhere.

The projections that the FAO is planning to put together for the Preparatory Committee of the WFC, while not contributing to the needed reassessment of the trend outlook through 1980, could nevertheless be important in defining the issues for the Conference.

²Agricultural Commodity Projections - FAO - Vol. I P. 42
³IBRD Internal Report - June 1973

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In contrast to the developed part of the world where food supplies on the average are substantially above minimum calorie and protein requirements, in less developed countries, despite the considerable development progress over the past 20 years, the food supply balance remains generally precarious. Over the next 10-15 years, the capacity of the LDCs to increase their production of the staple cereals will be decisive in determining whether their food supplies will meet the increase in demand and bring food consumption above minimum calorie requirements. Cereal production will have to:

- 1) at least keep pace with population expansion estimated to increase at the rate of 2.5 percent a year, or by 750 million people in this decade; and by a still substantial though falling rate in the 1980's;
- 2) exceed this rate in the vast majority of the countries in order to allow for an increase in per capita consumption;
- 3) release the necessary surpluses for animal feeding so as to satisfy the demand for animal products, particularly for poultry whose demand growth is 5.5 percent a year.⁴

The FAO in preparation for the WFC will assess trends in demand for food grains in the major regions of the developing world through 1990 and set production targets to meet the three objectives indicated above.⁵ The FAO, because of the work already done, is in an advantageous position for making such an assessment; and the targeted requirements should bear directly on the development issue as it will confront the Conference.

B. USDA

The USDA parallels the FAO in the scope and depth of its work and projections on the world supply and demand for food and nutritional levels in such studies as the WORLD FOOD BUDGET revised, 1970.

A special report, the World Food Situation, Prospects for World Grain Production, Consumption and Trade, comes to conclusions for the period 1970-1980 similar to those of the FAO. Starting from a projected 1970 base, which incorporates the probable progress to 1970 of the LDC's (principally India and Pakistan) in applying the High Yield Variety technology, it projects world supply and demand of food grains on alternative assumptions as to the continued progress the LDC's will achieve in grain production in the 1970's; and the effect of such progress in raising the nutritional level of their population in a decade.

On the most optimistic assumption that the LDC's will carry out a "crash" program of agricultural development with the assistance of the developed countries, in which there would be a sustained expansion of the new HYV technology, the average annual rate of growth of their food-grain production will be almost 4 percent a year, in contrast to a historical growth rate of 2.5 percent. The net grain imports of LDC's would be less than 6 million tons by 1980.⁶ India and Pakistan imports would be negligible. Grain consumption per capita would be 9 percent above that in 1970. This level of grain consumption would provide sufficient calories to meet the recommended amounts in all countries. However, while the average level of consumption would be adequate,

⁴A.C.P., 1970-1980, Vol. I P. 60 - FAO

⁵Internal planning memorandum, FAO; also discussion below of the 1968 USDA study.

⁶total imports of LDC grain importers 28 million tons, exports of LDC grain exporting countries 22.5 million tons, net imports of LDC's 5.5 million tons. Grain imports under above alternative would be predominantly commercial, leav-

some countries could still have substandard consumption levels.

Under the assumption of constant prices, and unchanging policies on the part of the major developed exporting countries, world production would through the decade be in excess of demand. By 1980 this surplus grain production would be on the order of 63 million tons, with total production 1,380 million tons, magnitudes remarkably comparable to those of the FAO 1971 projections.

The most conservative alternative is that LDC food grain production, despite initial progress with the HYV technology, would revert to a historical rate of growth of 2.5 percent. This would just match the population increase. Net imports of the LDC's by 1980 could rise to 34 million tons (with India's imports at 16 million tons); at the same time, total world production would still be in substantial surplus by 1980 by almost 35 million tons. There would in short only be a negligible improvement in the per capita consumption of food in the LDC's.

The above USDA study of 1970-1980 trends, several subsequent special USDA studies of world market prospects for the 1970's,⁷ the recently published Iowa State Study - World Food Production, Demand and Trade and the FAO projections all foresee large and accumulating surpluses as the dominant trend feature of the world grain market in the 1970's. This conclusion now appears questionable, as Mr. Perkins of the FAO Statistical Division observed,⁸

A reassessment of the world grain prospects, at least for the medium term through 1985, is necessary to determine whether years of relatively tight supply are likely to be the dominant characteristics. This should be an important part of the preparation for the WFC.

Such a reassessment will most likely have to be undertaken by the U.S. and for two reasons.

A key factor is what the trends will be in the Soviet Union. The U.S. Government seems to be in a particularly advantageous position to assess these trends; since it probably now has the best information on the USSR's food production and developments. Four reports recently reviewed in an all-day seminar, November 30, held by the Economic Research Service of the USDA are particularly pertinent:

- 1) Soviet Economic Growth and Consumption Trends, Gertrude Schroeder
- 2) Soviet Balance of Payments Situation, Robert Kovach
- 3) Soviet Feed-Livestock Economy: Projected Performance and Trade Implications, David Schoonover
- 4) Implications of Soviet Feed-Livestock and Other Economic Prospects, D. Gale Johnson

The last two papers foresee a trend of substantial Soviet imports of feed grains, even in the absence of serious weather problems.

⁶ing little room for concessional sales under Food Aid programs.

⁷World Demand Prospects for Agricultural Exports of Less Developed Countries in 1980 - USDA - ERS. A summary report of various special studies.

⁸See part Two, p. 4.

The subject is of sufficient importance to warrant the setting up of a U.S. interagency working group in which the above and related studies in other parts of the U.S. government would be coordinated for the special purpose of a new assessment for the World Food Conference. The current arrangements on an exchange of information on agriculture between the Soviet Union and the U.S. might result in an important input to such a study.

An equally important reason for the U.S. making this assessment is that the recent change toward a more market oriented U.S. agricultural policy will have an important bearing on whether large surplus stocks are likely to reoccur and to persist in the period ahead. The U.S. perhaps better than others can draw out the implications of its recent shift in policy.

Two current USDA studies,⁹ reported recently in summary form and conducted independently of each other by the Foreign and Domestic divisions of the Economic Research Service could, with the further work planned for the next 3 months, constitute a basis for a U.S. reassessment of prospective trends for the WFC.

The study, conducted by the Foreign Demand Division, has developed new projections of world demand and net trade in grains for the period through 1985 under two alternative growth paths for world demand of feed grains: 1) a resumption of previous trends of world demand constrained by high prices and national policies of self-sufficiency; 2) a high demand alternative on the assumption that animal production will be encouraged in grain importing countries leading to a higher demand for feed stuffs.

Under the high demand alternative, the substantial increase in world demand projected for the next ten years could be largely met by a U.S. increase in exports. This U.S. export capacity is predicated on the conclusions of the study of the Domestic Division on the potential of U.S. agriculture. This showed a remarkable elasticity of U.S. supply of feedgrains and soybeans in response to a number of favorable conditions including prices and on-going technology. The increases in supply would be accounted for in part by expansion of crop land under cultivation; but in most part by a continued improvement in yields.

The USDA work on global demand projections is going ahead and will be broadened to include explicit global supply projections. It would be hoped that as this work proceeds, some further work on domestic capacity of U.S. agriculture might be done to make it more of an integral part of the new global demand and supply projections.

The OECD secretariat is preparing to initiate a study for the OECD on global supply and demand grain and feedstuff trends through 1985. Possible alternate paths will be considered under different assumptions as to prices, Soviet trends, technology and other factors.

This study will not be completed in time for the WFC. However, if there is no further delay in initiating the project, work on it can be far enough

⁹Projection of demand, production, and trade of food grains and coarse grains to 1985 - World Agricultural Situation - Dec. 1973 pp. 52-56; and American Agriculture - Its Capacity to produce - The Farm Index pp. 8-16 - Dec. 1973

along over the next 4-6 months as to provide a basis for consultation with the U.S. that might prove useful for a U.S. assessment.

Conclusion

A. A reassessment of World grain supply and demand trends through 1980 that will bear directly on the issues of adequacy of World food grain reserves and of food aid policies should be undertaken by the U.S. in preparation for the World Food Conference.

For the purposes of such an assessment it is recommended that:

- 1) An interagency working group be given responsibility for coordinating trend estimates of Soviet supply and demand for feed grains;
- 2) On-going work on new USDA global projections of supply and demand of grains should be paralleled with further work on the U.S. agricultural potential that would serve the purpose of a more integrated set of projections that could be the basis for the U.S. assessment for the World Food Conference;
- 3) A definitive analysis of the new U.S. farm policy as it bears on the possible accumulation of U.S. government held stocks be made part of the U.S. assessment,
- 4) Assuming the OECD study is sufficiently advanced over the next four months, the U.S. should take this work into account before the final formulation of the U.S. assessment.

B. The FAO is best advantaged to make the kind of long run assessment of world food demand and supply through 1990 needed for the World Food Conference. In targeting supply requirements over this period, these projections should provide for different regions of the less developed World an order of magnitude estimate of the level of food production LDC's will need to achieve if they are to move toward a less precarious and more adequate food supply balance consistent with demand that overall development will generate over the next 10-15 years. How this growth in production can be achieved is perhaps the most fundamental issue that the Conference will confront.

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II. The Problem of Adequate Food Grain Reserves

As long as the U.S. held large surplus grain stocks, and as long as market trends indicated a continuing surplus of production, the problem of adequate world reserves did not arise. However, because of the change in grain prospects in this decade from one of surplus to the possibility of relative tightness and the movement of the U.S. to a production policy geared more closely to market supply and demand conditions the problem has emerged. The severe depletion of reserves throughout the world in the past two years and in particular, the depletion of the grain stocks of the major exporting countries, has imparted to the problem the degree of urgency it has today.

The problem of adequate reserves as it is shaping up impinges on a variety of interests in the case of exporters and importers. While each of these groups may have a conflict of interests on what is an acceptable level of prices, they share an interest in avoiding the kind of instability that characterized grain markets in the past two years. In the case of industrialized countries, presently coping with serious and persistent inflation, the instability in the grain markets and the sharp rise in prices has had serious repercussions on a sensitive part of the cost of living index - and this for exporters as well as importers.

For the developing countries that are in the commercial market as importers, the additional foreign exchange expenditures have had direct and possibly serious effects on their development programs.

Finally there is one other facet of the problem as it affects the commercial market, emphasized in the recent Brookings report, Toward the Integration of World Agriculture. In a situation of uncertainty as to whether the prospects are for continued and recurrent tightness of supplies over the next decade, there is not likely to be any significant movement away from costly national self sufficiency policies and toward the advantages of greater international trade in food grains unless the issue of secure supplies is met by an adequate world reserve policy.

The question of a world reserve policy transcends the problems of the commercial market. Involved is the issue of large scale disaster relief and the possibility that in the circumstances of wide spread crop failures the world supply of food grains might not be adequate and choices may have to be made as to which groups to rescue among the less or more seriously affected, choices that are hardly compatible with a civilized world community. The need for a strategic reserve to assure at least the minimum of world security thus becomes an important part of the issue of adequate world reserves.

The task of defining a workable international reserve policy for discussion at the WFC is a complex one. How large should the stocks be? Who should have the responsibility of holding them - the private trade or government? If the private trade, how can assurances be made that carry over stocks as distinct from inventory would be of the size needed? How should the costs be shared between exporters and importers, developed and less developed countries? Is there a need to deal separately with the question of stocks for disaster

relief and does this call for a special international reserve, possibly managed by an acceptable international financial institution? Can such a reserve be so managed as not to have undesirable effects on the commercial market? These and other questions will need to be examined before a proper U.S. formulation of the issue for the WFC can be made. This will require special studies.

The FAO has presented a proposal at its recent conference for a world reserve. It is most general in form and does not attempt to specify magnitudes nor give specifics of how governments will coordinate their national reserve policies to achieve the stated goal of a world minimum security reserve. The FAO will prepare this proposal for submission to the WFC; but it is not clear at this point whether in so doing, it will make any progress in coming to grips with some of the substantive questions involved.

In addition the FAO will do a "follow up" to the preliminary statistical analysis on reserves cited above.¹⁰ This could prove useful depending upon how ambitious the effort will be in developing some of the options.

The Economic Research Service of the USDA is preparing to initiate a study on reserves. One part of the study will investigate variation in grain yield in various regions of the world over the past twenty years that may provide some statistical basis for estimating the magnitude of stocks that may be required; the second part would consider various policy options in addition to reserves that may be available to deal with the problem such as forward contracts, state trading, export and import controls.

Brookings is also about to launch a grain reserve study which could be a valuable contribution to the formulation of a U.S. position on the issue. The study is scheduled for completion by August.

The principal objective of the study is to define and evaluate policies for the holding of food reserves which could be acceptable to the major national and international interests involved. The study would consider two partially separable aspects of an international agreement on food reserve policies:

- 1) Reserves to be held against commercial contingencies (i.e., for use in meeting shortfalls in commercial markets) and
- 2) Reserves to be established for emergency use in the large non-commercial markets, of which South Asia is the most important.

The examination of a reserve policy to deal with the commercial contingencies would consider such questions as:

- 1) Which countries would be expected to participate? Which foodstuffs would be included (cereals only, cereals and oil seeds, others)? Where should stocks be held?

¹⁰Selected Facts and Figures Relevant to an Appraisal of the Adequacy of Stocks in Relation to World Needs, FAO, Sept. 1973

- 2) What stock level would be appropriate for insurance against likely contingencies? How would reserve stocks in this sense be differentiated from private commercial inventories? And how might they be managed so as not to reduce incentives to hold private inventories?
- 3) How would the financing of stocks be divided as among consuming and producing nations? How long a period might be necessary to build up suitable levels of stocks?
- 4) What would be suitable arrangements or rules for the release of stocks to the market?
- 5) Would the program be open to the Soviet Union? Communist China? What incentives would there be for the Soviets or the Chinese to join? How would they be treated during periods of shortage if they were not participants?
- 6) How might a food reserve program be negotiated? How would it be related to improved access to commercial markets?
- 7) Would long-term supply contracts be an alternative to an agreement on food reserve policies? How would such contracts affect requirements for physical stocks?

Although reserves earmarked for commercial markets would to some extent overlap with emergency food stocks for developing countries, the latter program can be considered separately. Questions to be addressed include:

- 1) What levels of emergency stocks would be necessary and for which countries?
- 2) What would be a fair division of the cost as among (a) the industrial countries; and (b) as between the industrial countries and the governments of the developing countries?
- 3) What would be the role of international agencies, e.g., the World Bank or the FAO?
- 4) Where would emergency stocks be located, and who would decide about their release? Would these stocks be controlled by an international body?
- 5) Would the existence of emergency food reserves tend to have an adverse effect on cereal production in developing countries? If so, what means might be available to offset this effect?
- 6) How would international financing of emergency food reserves affect the need for, and the amount of food aid?

Finally, Timothy Josling of the London School of Economics sketched out in a preliminary fashion, in a report published by the British - North America Committee, an international held grain reserve approach for the benefit of the developing countries. The report posed a number of problems as well as setting forth the advantages of the approach.

Conclusions

A. The modalities of an international grain reserve will be the principal "short run" issue confronting the World Food Conference. Because of a convergence of interests on this issue as between industrialized and less developed nations--Communist as well as non-Communist--the Conference may well come to some kind of agreement in principle on this issue.

B. The US in its preparation on the issue will have to consider the wide range of questions pinpointed by Brookings for its proposed study. In doing so, two major questions will have to be resolved:

(1). The role, if any, that US government-held stocks should assume in an international reserve policy;

(2). What support is US prepared to give to a special international food reserve for the LDC's; and if it decides to support such an approach how will this affect US food aid policy?

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III. Food Aid

With the elimination of U.S. surplus grain stocks and the unlikelihood that they will reemerge on a persistent and substantive scale under U.S. current agricultural production policies, U.S. food aid policy was in any case due for a reassessment. This will now need to be done as part of the preparation for the World Food Conference. In its most general form the question that needs to be considered is: to what extent are the industrialized countries prepared to maintain present commitments let alone assume new ones on food aid to the LDC's in the face of current and prospective tightness of supply of food grains? The answers developed in this area have a direct bearing on the questions posed in II above relating to the form and adequacy of world food reserves.

Four types of food aid can be considered, defined in terms of the purpose it would serve:

- (1). disaster relief
- (2). vulnerable groups
- (3). assistance in building up national food reserves and for the building up of an international food reserve for LDC's should this prove to be an acceptable approach
- (4). development assistance

Studies on these various aspects of Food Aid should be undertaken not only by the U.S., but by the Development Advisory Committee (DAC) of the OECD and by the European Community as part of the preparatory work for the WFC. A working party might be set up in the OECD to coordinate the work of the various groups.

With respect to the first two categories of food aid, an agreement in principle can be presumed to exist among the industrialized countries. In question, and what will need to be studied, are the magnitudes of such forms of assistance, how the costs will be shared, and problems arising in the administering of the programs. The possible advantages of an enlarged role for the UN-FAO World Food Program should certainly be a central point for consideration.

The third category though under present circumstances open to question should certainly seriously be considered. In view of the uncertainty of world food supply picture over the next five years, the LDC's need to build up their

national reserves as rapidly as possible. For many, the claim on their resources involved would act to severely limit such programs. Assistance to facilitate national reserve build-ups will benefit not only the LDC's but, in the added insurance it provides for a stable world market in grain, it would benefit the developed exporting countries as well.

In the studies on such a program of Food Aid, consideration should be given to the participation of all the developed countries, including the Soviet Union, and the oil rich nations. For those countries that are not grain exporters, their form of participation could be in helping to finance storage capacity and the initial phase of operation.

The investigation of national storage capacity, stocks and reserve policy of thirty of the most vulnerable LDC's that the FAO is about to initiate with the assistance of the IBRD^{10/}, should be of considerable value if a food aid policy for building up national grain reserves of the LDC's finds agreement at the WFC.

The fourth category of food aid, large commodity programs on concessional terms for development and general economic support of the recipient countries, has in the past, accounted for a predominant part of total food aid, and the U.S. has accounted for an overwhelming share of this type of program.

With elimination of surplus stock and the prospect of relatively tight supply markets for the remainder of this decade, providing economic aid to LDC's in form of food, has lost its rationale. Further the increased need for the LDC's to accelerate the development of their own agricultural capacity, increases the importance of the question of the possibility that food aid for this purpose is a disincentive to their agricultural development. It is true that if such aid is given only on tough conditions as to domestic measures that the LDC must undertake to develop its agriculture sector, food aid can, by saving foreign exchange for the recipient country, be a positive factor in the transitional period of this development. However, the abrasive relations that result from such a policy are not likely to be acceptable for either the U.S. or the recipient country.

^{10/} See part II, p.

Conclusions

A. The US and the other industrialized countries, should, for the World Food Conference, be prepared to indicate the kind of food aid commitment they would be willing and able to undertake during the remainder of the 1970's, in the absence of surplus stocks.

B. In addition to the US, study groups on this issue could be initiated by the Development Advisory Committee (DAC) of the OECD had by the European Community. A working party might be set up in the OECD to coordinate the thinking of the various groups.

C. It is possible that the industrialized countries might reach a consensus on food aid policy for disaster relief; for vulnerable groups and special work projects; and to help build up national grain reserves as well as a special international reserve for the LDC's. However, the possibility or desirability of continuing program loans of food aid for development assistance on any substantial scale is much more open to question.

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IV. The Development Problem

A. There is no avoiding the development issue in the World Food Conference. It belongs there. The LDC's are right: it is indeed the heart of the matter. The problem is how to define it for the purpose of the Conference so that it will be manageable and operational. It is no good having the Conference turn into another UN Development Decade or UNCTAD I operation - meritorious as these might have been. The Conference has its own business at hand. These are the issues that have been generated by the uncertainty of trends of supply and demand for the medium term-- the need for new forms of food aid, the need for some form of international reserves of food grains; and the long term development issue, for development has a long lead time. The development issue arises in the context of the World Food Conference because of the foreseeable impact of population growth and rising incomes on demand on food grains that are the staple diet of the large part of the LDC population. This calls for an acceleration of the development of the food producing capacity of the LDC's as will undoubtedly be shown in the FAO long term projections that will be prepared for the Conference.

It follows then that the business of the Conference is not with development in general, nor even with agricultural development but with a slice of the agricultural development problem. It is no small slice however, considering that a preponderant part of the population of the less developed world is concerned with the production of the staple grains.

If this line of reasoning is on the right track the U.S. preparatory work on this question should through special studies develop a perspective on this "slice" of the development problem with sufficient force and in sufficient detail that the issues posed would become the center of the discussion of the development question for the Conference. The question of the "small" farmer, only marginally involved in the money economy, might become the common theme running through all these issues. Development of ongoing technology and market organization in directions that would serve to pull him into the market processes might be seen not only in equity terms but as essential to the next "stage" in the spread of the new HYV technology and the acceleration of the rate of food production.

If it went this way, one of the "principles" that the Conference could end up agreeing to is a new emphasis on Development Strategy in the LDC's and Development AID in the LDC's in this direction.

With the Nairobi speech of Mr. McNamara, the World Bank is on this track already. Its plans involves negotiating agreements this year with four countries to set up pilot programs that would be the first steps in implementing the approach on increasing production of "small farms" in the LDC's. If the WFC on its "Development resolution" came down hard in the way indicated it would result in imparting a strong impetus to the Bank's current approach.

The Trade-Development Issues - LDC Agriculture

B. In a recent study the IBRD estimated that if the OECD countries gradually removed present tariff and non-barriers to agricultural imports, the improved access to markets, could result in an increase in LDC agricultural exports of 7-10 billion dollars by 1980. An estimated \$12-17 billion of investments to increase their export capacity would have to be undertaken by the LDC's to take advantage of this increase in market potential. The FAO in similar studies has also focussed on this "Adjustment" issue as a critical factor in LDC development; and its estimates of the potential LDC increase in agricultural exports by 1980 are similar to those of the IBRD study.

There is no gainsaying the large benefits that a more liberalized agricultural regime, if adopted by the industrialized countries, holds for developed and less developed countries alike. And movement toward such a regime will be an important part of the Multilateral Trade Negotiations that should be fully underway this year.

Apart however, from the question of what is to be gained by considering this particular "adjustment issue" in the World Food Conference if the MTN will indeed get underway this year there are two more fundamental observations on this that should be made:

- 1) The question of improved access to foreign markets for their agricultural exports may be peripheral to the basic development issue facing the Conference, namely a substantial lifting up of food production and consumption and the change in development strategy that may be necessary to bring this about.

2) In so far as it isn't a peripheral issue, the question may well be posed as to whether in solving their "food problem" the LDC's will not be facing a choice of conflicting agricultural development strategies--one export oriented and geared to the more commercial groups of the agricultural sector; the other focused on increasing the productivity and income of the millions of small farmers and providing them access to the domestic market.

The Fertilizer Question

C. The HYV technology has every prospect of dominating LDC agricultural developments for at least the next 10 years. Applying the technology will involve a critical dependence on chemical fertilizer imports, for most of the LDC's. This will be the case even if there is a substantial expansion of the LDC's domestic fertilizer industry to meet the rapidly growing demand.

The World's chemical fertilizer production is presently concentrated in the industrialized countries. Over the past ten years the industry has been marked by alternating phases of excessive investment succeeded by inadequate investment. As a result, the world is facing currently a fertilizer "crisis" characterized by sharp price rises and inadequate supplies. Apart from the immediate and urgent problems created by the current shortages, this kind of instability of the fertilizer market can give rise to unacceptable costs for the longer run development plans of the LDC's. The question of a secure supply of chemical fertilizer at reasonably low prices should certainly be an important part of the development issue confronting the WFC.

In considering this question the dramatic recent change in the world energy market must be taken into account. This is particularly the case for nitrogenous fertilizers, whose production is based primarily on natural gas or oil.

If as seems quite likely, the large chemical fertilizer corporations of the industrialized countries are now prepared to join with the Persian Gulf Oil producing countries and locate their new plants where the gas or oil is more readily available, how will this affect the LDC's and their longer run requirements? Can they in the future count on privileged access to supply when the market is tight? Would the oil producing countries and their Western partners be prepared to adopt a two-tier price system that would form the LDC's? Is it possible to conceive of a system of long term supply contracts that would assure LDC security requirements?

As part of the US preparation for the WFC it should prove useful to undertake a special study that would explore these and other ramifications that arise in the joining of the world energy and fertilizer questions.

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Address - Board of Governor - World Bank - Robert McNamara - NAIROBI, Kenya - Sept. 1973

PART TWO

WORLD FOOD CONFERENCE: ISSUES AND PREPARATION FOR
CONFERENCEMemoranda of Conversation

I. Meetings at FAO, Rome, December 10-13, 1973

A. Meeting with Dr. Edmond Hartman - Director
FAO Field Service

General - Dr. Hartman not involved in FAO preparation for Conference. However he believes that the Conference should focus on small traditional farmer whose resource base too small to make transition to money economy.

FAO Policy thinking on problem of how to accelerate agricultural development in LDC's tends to be on macro level. The problem however is on the micro level-how to organize farm unit.

For a good part of the agriculture sector- in the developing world, if the benefits of market specialization and modern technology are to be realized, the small individual farmer may have to be organized in large producer's cooperatives of the type found in the Communist countries of Eastern Europe or perhaps some variation such as the Israel Marketing and Producing boards.

The distinction between farm and factory under modern conditions of production no longer holds, and the small traditional farmer, if his productivity is to increase may have to accept some form of worker status.

B. Dr. Sartai Aziz, Director-Commodities and Trade
Division

General - Dr. Aziz is one of four men working group of FAO Senior staff that will have responsibility for FAO preparation for World Food Conference.

On the future demand and supply outlook for food - FAO will prepare assessment for Preparatory Committee of the Conference. The assessment will be for period 1975-1990. It will be based on work already done by FAO.

However the supply estimates will be neither projections- nor forecasts-but targets that will need to be achieved over the period projected if the major, densely populated LDC's are to meet their basic food requirements at a level that

will eliminate pervasive malnutrition.

Whether global supply and demand projections over the next 10-15 years reflect emerging surpluses or a chronic tight supply position- should not affect the principle substantive issues of the WFC - Food aid; a strategic world food Reserve; and the need for accelerating agricultural development in the LDC's.

Food Aid

Regardless of the dimensions and forms of a new Food Aid approach that might emerge from the World Food Conference the aim should be a sustained Food Aid policy carried out independent of whether supply conditions are tight or in surplus.

Countries other than the U.S. taking on a larger share of program, and, a more multilateral Food Aid approach, including a possible larger role for a European Community program, should be the aspects of a new Food Aid approach that ought to be considered.

World Food Reserve

FAO will confine its preparation in this issue to the proposal put forth by Dr. Boerma. Because of the conservative approach of the Boerma proposal it has the best chance of getting general acceptance. This should not preclude other variations of a global reserve stock from being considered.

FAO has recently completed a preliminary study that analyses the various factors bearing on an international food reserve.¹ There will be a follow up study on this in preparation for the World Food Conference.

In addition FAO is organizing five men teams of experts to conduct studies in thirty of the most vulnerable developing countries. The World Bank is helping to finance these studies. They will be concerned not only with current levels of grain reserves and storage capacity, and their location in relation to present and future needs; but also what might be an appropriate policy in this matter for the country concerned to follow. If additional funds could be budgeted, the studies could be accelerated, in that more teams could be put into the investigation and more countries covered during the year. Under the present budget the studies might take four or more years to complete. They should have been obviously done before this.

¹ FAO report CCP: GR 73/4 - Sept. 1973.

Development of Agriculture in LDC's

This will be the issue that the LDC's will attach the most importance to in the WFC. And it is potentially the most divisive for the Conference.

The FAO is engaged in a series of studies of the developing countries, analyzing prospects, policies, and desirable targets of agricultural development in the context of the overall development of the underdeveloped countries- two of their studies have already been completed.² Since these studies are in collaboration with the individual countries and are, reports to these countries, dealing with policy issues, they are circulated only on a restrictive basis.

Yes, the question of the small, traditional farmer and how he is to be locked into the development process, is a central one for the LDC's. The People's Republic of China, through the instrument of their Communes, appears to have evolved one kind of answer to this problem.

The Chances of Success of a WFC

It is quite possible - but hardly desirable that the WFC will deteriorate into an acrimonious and unproductive debate between the rich and poor countries. Whether the Conference does end in the above way or whether it will deal meaningfully with the problems of international cooperation and interdependence will depend on the preparation for the Conference and the formulating of the issues. In this connection, what will in likelihood be determining- will be whether early enough in this preparatory period the U.S. signals its serious intentions with respect to the Conference.

C. Meeting with Mr. A.G. Leeks - Chief, Basic Foodstuffs Service, FAO

Food Grains: Long Run Supply and Demand Prospects

A basic shortcoming of the FAO Supply and Demand commodity projections is the failure to take account of the relation between feedgrain and livestock production.

This shortcoming cannot be quickly nor simply redressed by plugging a more explicit relationship of feedgrain and animal (beef-pork-chicken) production into the FAO projection model. The basic data needs to be accumulated first and

²Perspective Studies Completed, Egypt and Sudan. To be completed in 1974: (a) The Near East-Iran, Iraq, Pakistan; (b) Asia, Bangladesh and Nepal.

this will take time. It may be a matter of several years before the data base will be established for incorporating this crucial relation into a revised FAO long run projection of demand and supply of food.

On Food Aid

Certainly-a consensus can be expected to be reached in the WFC on Food Aid for disaster relief and for help to vulnerable groups in the LDC's less certain-but still quite probable-an agreement can be reached on Food Aid to the LDC's to help them build up reserve stocks. The ambiguous areas-the "grey" area-are the large food aid programs that are essentially a form of development assistance through the use of foreign exchange expenditures for more directly related development imports that the recipient LDC can thereby undertake. They can operate on the one hand as a disincentive to accelerate agricultural development on the part of the LDC recipients; and as a support to agricultural protection in the case of Food aid donors that are high cost producers-thus perpetuating distortions of World trade and production of basic cereals. In seeking agreement on this kind of Food aid, these two possible consequences must be properly faced. Perhaps the best solution is to recognize that at least for the next 5-10 years - LDC will remain importers of basic food despite an agricultural development that would, over the longer run, result in self-sufficiency; and that in the transitional period assistance in the form of credits should be made available to them to finance their food import deficits.

- D. Meeting with Mr. R. J. Perkins-Econometrician, General Analysis Commodity Group, Commodities and Trade Division, FAO

Demand projections - because of the strong part, population trends assume in their estimates, the demand projections are relatively satisfactory; it is the supply projections that are weak.

The feedgrain - livestock relationship and the failure to assess Soviet supply and demand trends are other-major shortcomings.

The FAO projections, Department of Agriculture and the recently published University of Iowa study-all similar methodology, and all end up with a surplus supply situation emerging by 1980 - and all- if the recent tightness of supply-is any indication of the prospects over the next 5 years, are equally wrong.

Supply projections weak because of inability to anticipate-how weather factor may cluster-but also its

treatment of technological factors.

Essentially a trend factor is introduced in the projections allowing for improvement in productivity due to technology. In the projections of the HYV approach in LDC's, FAO's wheat projection are below the growth actually achieved thus far; however, the rice projections substantially above actual production reflecting fact that in case of rice, HYV package approach has had far less impact thus far than anticipated.

On Reserve Stock - will be participating in the follow up FAO study of factors relevant to an appraisal of stocks in relation to world needs.

On LDC Agricultural Development - Agrees that for most LDC's, expanding domestic demand rather than exports could be the principal stimulating market factor in their agricultural development. The FAO emphasis on special access to export agricultural market in the adjustment report is a relatively peripheral issue for many LDC's.

E. Meeting with Tom Robinson, Deputy Director,
World Food Aid Program

Food Aid Program - Large program Food Aid for development assistance is of questionable value to LDC's objective of accelerated development of their agricultural sector. However the kind of project aid represented by the more limited UN-FAO world food program does have clear direct economic benefits to recipient LDC's. ³

Agrees that in some cases costs of administering such projects to LDC recipient could outweigh benefits; nevertheless in general, employment and other benefits exceed such costs.

In recent visits of U.S. Secretary of Agriculture Butz and of Senator Humphrey, Robinson pointed out to them the curtailment of WFP due to tight supplies and urged that regardless of U.S. policy on program (Title I) Food Aid, it should continue to give fullest support to FAO - UN World Food Programme.

F. Meeting with Dr. Marcel Ganzin - Director Food
Policy and Nutrition Division

FAO estimate of magnitude of caloric deficiency in LDC's not meaningful. No basis for estimating that part of population whose consumption falls below the average.

³ See ILO Report: The World Food Programme and Employment 1973, E. Costa.

And new W.H.O. criteria of minimum protein requirement appears to eliminate former estimates of large scale protein deficiency.

In any case the principal problem is not dealt with by special nutrition programs for LDC's. What is required is to increase productivity of at least advantaged groups through conversion from subsistence agriculture to production for market. This will require a "system approach" in which production markets, and necessary infrastructure are dealt with simultaneously in a development program.

II. Meetings with European Officials - Brussels, December 14 and 15.

A. Meeting with M. Louis George Rabot - Director for Agriculture European Community Commission

General - What generated Secretary Kissinger's WFC proposal? Agrees that regardless of particular reasons for U.S. initiative, the proposal has since acquired a life of its own and must be considered on its own merits.

How serious is the U.S. with regard to proposal? If the U.S. is serious and indicates this early enough in the preparation for the Conference-the Community will respond, and the chances improved, that the WFC will be productive and not a rhetorical battleground. My presence in this trip is an index that the U.S. may be preparing seriously for the Conference, and therefore, that the Community should begin to do so also.

Food Aid Issue - There could be a strong interest in the Community mounting a sustained Food Aid Program. However before a study for the WFC on the issue is initiated, a political decision by the Community must first be made. The financial costs of Food Aid, particularly in a tight grain market, will be an important question.

Food Aid - Food Grain Reserves - The community could well be prepared to consider Food Aid, in the overall context of building up adequate world reserves.

The Long Run Supply and Demand Estimates - The FAO should be the most neutral and thus the best source for a continuing and improved source of long run projections of supply and demand of cereal as well as other agricultural products on a global scale.

Agricultural Development of LDC's - It is important that the question of trade access issues that arise in this connection do not undercut the MTN. U.S. assurances in this have been accepted.

Agrees that the problem of adequate supply of fertilizer at acceptable costs, as well as other inputs, could be important part of WFC agenda, and that potential role of oil producing LDC's in this connection worth examining.

Experience with development problems in Africa should put the Community in a position to make contributions to discussions of this issue.

On these and other issues of WFC would hope that there would soon be a follow up to this initial discussion. Important to prepare approaches to development issues LDC's that would defuse a possible non-aligned countries - UNCTAD approach that would be divisive and controversial. Agrees that focus could be on following approaches:

1. Consultative procedures for monitoring on going long term demand and supply projections - of FAO.
2. Food Aid commitment to help build up world reserve stocks that would be undertaken independent of how tight cereal supply situation is over the next 3-5 years.
3. Accelerated Development - LDC Agriculture - but with specific trade issues for consideration in MTN Forum; and the emphasis in WFC forum on accelerated development - LDC - food production - in response to expanding domestic market -- Role of oil - producing LDC's - with particular emphasis on fertilizer production - meeting- LDC growing requirements.

B. Meeting with Mr. Szarf, Senior Staff, EEC
Agricultural Division

On Long Term Supply and Demand Food Grain Prospects -
Over next 10-15 years alternating tightness and surplus likely - particularly for temperate zone product but also for tropical zone. Reasons for expecting such instability of the market.

1. U.S. supply management policy finally successful - unlike Europe - and US disinclined to act any longer as residual supplier.
2. As self-sufficiency achieved in major food deficit countries - fluctuations in productions- results in larger swings in World trade.
3. Soviet Union and China in world trade of food grains.

Food Aid - Community does not require over all surpluses - It could be to Community benefit to be exporters of wheat and importers of maize. Food Aid program - would be affirmative political factor in underlining Community identity.

Should be able to contribute to all four aspects - stocks-emergencies-vulnerable groups (WFP) and as development assistance- Need not be a factor in sustaining distortions in world production and trade - or act as disincentives to LDC agriculture development.

Foresees substantial demand for food aid - in LDC's for at least the next 10 years during transitional period of moving toward self-sufficiency. Study of the possible magnitude and particular countries would be useful - Community does not have research staff that could undertake this. OECD should however be able to take on such a study.

C. Meeting with Mr. Frisch - Community Development Assistance Program to LDC's

Community experience in Africa - could provide source for report on LDC agricultural development that should be useful part of preparatory work for conference.

On traditional farmer-Community large scale project - Upper Volta - covering 2 million acres. Successful within limited objectives of program.

D. Luncheon Discussion with Dr. Marcel Stuyck, Director General, Ministry of Agriculture - Kingdom of Belgium

Believed Belgium government would support European Community Food Aid program. His own limited experience with African agricultural development projects leads to conclusion that there is a lack of overall strategy of development.

III. Paris - OECD - Meetings

A. Meeting with Dr. Albert Simantov -Director for Agricultural OECD Secretariat

Long Run Supply and Demand - Assuming OECD approval, study of supply and demand of cereals, feedgrains, and live-stock, over next 15 years, will begin immediately. Study will be global in scope. It will not be like FAO - a computerized projection of trends but rather an assessment of sensitivity of such trends to change in prices, technological innovations, USSR and China more consumer oriented development, and other factors that may have bearing on future supply and

demand trends. Expects to have available U.S. estimates on Soviet Union and China. While study will not be completed in time for WFC - expect that it could be well enough along that consultations on going work could prove useful for WFC preparation.

Food Aid - Programs for disaster - disaster relief, vulnerable groups or development assistance- must be linked to the issue of food reserve - if they are to be adequate in time of tightness of supply.

OECD - DAC study on possible dimension of food aid program - and relation to economic development - LDC's - being considered for later in the year.

On Agricultural Development of LDC's - This should be focus of WFC updating of USDA study of 26 developing countries agricultural progress would be useful for Conference -Also agrees that updating of OECD development center Fertilizer study should be considered.

WFC should consider responsibilities of LDC government's institutional reforms including land reform and other measures that would be determining in any long term program to accelerate agricultural development, with particular reference to the "small farmer. This is especially the case for the Latin American Countries.

B. Meeting with Kenneth Ogren - Agricultural
Attache - U.S. Embassy - Paris

French attitude positive and corperative to U.S. initiative proposing WFC, a unique experience.

French view, long run supply and demand prospects as one of increasing tight supplies of food grain and are likely to be prepared to support U.S. if it takes leadership in serious preparation for Conference. Underlying French view on long term prospects:

1. European agriculture has in past ten years realized much of potential for increased productivity.
2. U.S. will no longer have large reserves of productive land.
3. Soviets and perhaps Chinese may become significant food grain deficit areas.
4. No breakthrough in sight on yields of major protein crop (soybeans).

Thus- would support LDC development - agriculture as

major theme of Conference - not only in terms of LDC development needs - but in terms of global supply and demand requirements over the longer run.

Would also support building up reserves world wide - in recognition that U.S. will no longer act as residual supplier to world market - and that the problem of storage must shift some extent, to food grain importing nations.

French may have interest in long term protein contracts.

They have interest in price for agricultural products being stable - but not falling back to what they were before the recent rise.

Would support the development of some form of "early warning" system of impending food crisis.

Would be forthcoming on some type of food aid approach.