

Discussion

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Mr. Palmby has addressed himself, in his paper, to the impact of political-economic decisions on the international supply of and demand for grains. Certain political-economic decisions do and will continue to influence levels of international trade in grains, and the ways in which that trade is financed. The point is well made, and warrants greater examination. Also, it should be viewed from the exporters' as well as from the grain importers' perspective.

In the opening pages of his paper, Mr. Palmby singles out demand as having a greater economic impact than supply. But we have to be careful here, for what he is referring to, I am sure, is not total demand in importing countries, but rather their "import demand." Total demand for cereals (especially wheat) in most grain importing countries is fairly predictable on a year-to-year basis. Consumer demand does not respond to international grain price fluctuations (unless foreign exchange holdings are a problem, and even then, often not greatly) because grain prices in importing nations are usually set well above international levels. Consumers in these countries are in effect isolated from international prices (actually, this is normally the case even in those countries where grain prices are set at relatively low levels). When domestic production does not meet a country's needs, therefore, it imports grain to make up the difference. Import demand, in other words, is to a very large degree, a function of domestic production and supplies.

It may be useful to quickly test this statement with respect to some of the world's major grain importers. The most publicized grain importer in recent years has been the U.S.S.R. Since 1972, and in conformity with its five-year plan (in which a commitment was made to improve the diet of the Soviet populace), production shortfalls in that country have triggered large international grain purchases.

In the EEC, great political-economic incentives have been given to encourage self-sufficiency in grain production. Internal prices (for example wheat at about \$6.45 per bushel with an import levy last week of \$3.68 per bushel) are set far above international levels to accomplish this objective, with the result that relatively cheap grain is purchased internationally only to fill in the demand-supply deficit. The case in Japan is similar in that internal prices to millers (with 1 CWRS 13.5 per cent protein wheat sold by the Food Agency to Japan millers at about U.S. \$7.70

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per bushel) are well above international levels, though production is so small that most Japanese wheat and feed grain requirements have to be met by international purchases. Japanese farmers, incidentally, receive about \$15.00 per bushel for the wheat they grow.

Even in developing countries, the politics of food is so important that most countries will sacrifice hard-earned foreign exchange holding to avoid the politically hazardous possibility of widespread hunger. Mr. Palmby used the example of India to support this. Food imports in these countries, whether under commercial or aid programs, largely reflect production shortfalls rather than changes in demand or financial considerations.

If we turn now to the world's largest grain exporting nation, the United States, certainly supply is more subject than demand to political-economic decisions. Programs to set aside grain acreages or reserves are totally controlled by the U.S. government. Price-support programs at the producer end also fall strongly into this political-economic category. They are instituted to assure the farmers of some minimum revenue.

When we are considering "problems associated with financing increasing levels of international trade" in grains, it is very important to differentiate between financing which makes it possible for a food-deficit nation to import, on the one hand, and financing which attempts to get a competitive advantage on other grain exporters, on the other hand.

Let us first consider the objective of trying to improve one's competitive advantage. If financing aids are not in effect required by the importing country, but exporters provide such facilities anyway, then these exporters are simply conducting business in such a manner as to transfer income from farmers in the exporting nations to governments or buyers in the grain importing countries. It may be useful to analyze this hypothesis further.

The United States, by virtue of its very dominant role as a grain exporter, is the undisputed price leader in the grain world, and will continue to be so in the future. Prices set in Chicago, Minneapolis, and Kansas City or Washington greatly influence the asking prices of all other grain exporting nations.

Since grain prices in most importing nations are well above and fully insulated from U.S. and other exporters' selling price levels, farmers and governments in exporting countries have in effect been subsidizing buyers in grain importing countries. For exporting countries to compete with each other with even more liberal financing terms than we have right now would just increase this subsidy from exporting to importing nations.

If, for example, the aim of the current congressional proposal to increase CCC export credit terms from 3 years to 10 years is to make the United States more competitive with other exporters, then it probably will be self-defeating. For there is likely no way that other exporters could avoid providing the same terms if they wished to remain competitive. The net result then would be that neither the United

States nor other exporters would gain any competitive advantage; they would merely increase their subsidies to foreign grain buyers.

We can go one step further in this discussion and say that if international grain prices were higher, import demand would only be marginally affected, if at all, but the exporters' subsidies per bushel to the importers would decrease by the amount of the rise.

The important consideration in viewing financing of increasing levels of international trade in grains then has to be how to tailor programs to the real financial requirements of the individual food deficit nations.

Aid in the form of outright grants of food grains for people suffering from famine, in countries where adverse weather has resulted in crop failures, will continue. In fact, the need for food aid may well increase as population in many developing nations continues to surge past food productive capacities. Food aid shipments will be financed by the governments of the richer, more fortunate food exporting and importing nations.

Long term credit facilities, such as Public Law 480, may also be required for those countries that have laid the foundation for long term economic development, with a view to shortening the credit terms over a period of years to the point where sales can be made entirely on a cash or short term credit basis, as the importing nation matures economically. Both you in the United States and we in Canada have experienced success with such developments in the past.

Finally, short term credit (up to three years at commercial rates of interest) will continue to be a feature for a number of purchasing countries experiencing some problem with foreign exchange earnings, to facilitate their ongoing requirements for grain imports.