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By Dr. Clayton Yeutter*

It is a pleasure for me to be in Toronto, for the first time ever. My wife and I honeymooned in Canada 30 years ago, so every return trip to your beautiful country is a nostalgic experience. With an 80 cent exchange rate, we really ought to come back for another honeymoon in June and stay the rest of the year!

Marshall Loeb, one of our outstanding business journalists, delivered a speech a couple of years ago in which he predicted the winning nations in international economic competition for the next decade or two. His top category encompassed only five nations and Canada was one of them. Fortunately, so was the United States. Of even more relevance to the audience assembled here today, agricultural productivity was delineated by Mr. Loeb as one of the primary reasons for his prediction in both your case and ours.

Mr. Loeb could be wrong, of course, but I doubt it. I concur with his assessment that the long term outlook for both Canadian and American agricultural producers is optimistic. Furthermore, if that optimistic result is not realized, it will probably be our own fault. That is, it will likely be because we have "shot

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ourselves in the foot" again through unwise governmental policies.

The short run, however, comes first, and it is not quite so optimistic. Net farm incomes have plummeted in the United States in recent years, and Canadian agriculture has not been in a euphoric economic state either. What happened to all those beautiful dreams of the 1970s?

The Glut

One really should analyze all sectors of our respective agricultural economies, but there is no time for that. So please permit me to concentrate primarily on cereals, where both Canada and the U.S. have an intense international interest and involvement. Much of what can be said about cereals, however, is also applicable to many other farm products.

First of all, one must simply concede that we have a glut in supplies, and one of such magnitude that it will not quickly go away. The reasons are not difficult to discern. We have had generally good growing conditions in the U.S. and most other major producing areas (Australia being the obvious exception) in recent years. That alone would be troublesome, but when coupled with adverse developments on the demand side, the price result is devastating.

As exporters, both our countries have recently had to battle the effects of a global recession, accompanied by an enormous transfer of wealth from some of our best customers to the OPEC cartel, which contains good customers but not populous ones. This has left many agricultural importing nations strapped for money, victims of a cash flow crunch and an enormous debt burden.

The strong dollar has not helped either. It is not easy to explain to an American farmer why his grain costs more in the international marketplace than it did three or four years ago when he has seen his own selling price decline dramatically. A discussion of international monetary policy and the merits of floating exchanges rates is not likely to impress the farmer whose net worth has suddenly disappeared even though he is as efficient an operator as he ever was. And certainly our grain embargo did not help the American exporting cause, though it had short range "windfall" benefits to Canada and other export competitors.

In summary, the '80s have thus far been traumatic for Canadian and American agriculture, exciting but not very profitable. Which brings on the more relevant question - what do we do about it?

Export Demand

Let's look at the demand side first, simply because that is more appealing. As between increasing demand or reducing output, I much prefer the former. So do American farmers, and I suspect Canadian producers are no different. Farmers enjoy going all out to help feed the world, a psychologically and financially rewarding experience if the demand is there.

The key element in this picture is the one recognized by your conference planners - recovery. Since that issue has been thoroughly discussed today, I will not now impose further analytical comments on you. Suffice it to say that the U.S. recovery is well underway, and will surely continue if we do not botch either our fiscal or monetary policy decisions. My personal judgment is that we will do reasonably well in that process, and that the U.S. will experience a healthy recovery over the next several years. If so, the Canadian economy will benefit too, as will all our other major trading partners.

Some caveats are in order, however. One relates to the credit crisis. Over the past decade or so, the greatest growth in our agricultural exports has come from sales to the stronger members of the group of lesser developed nations. I expect that trend to continue, and I imagine it will affect Canadian agricultural exporters in essentially the same way. In other words, we both need to expand our embryonic LDC markets. (Some are already so large that they can no longer be considered embryonic.) Right now, however, that can only be done through credit provided by someone - the World Bank, the IMF, the commercial banking system, and our respective government credit programs. Credit availability is <u>the</u> front burner problem for LDC's today, and it is a high priority issue for us too. Unless that credit materializes, many of the lesser developed countries will not be able to survive financially, let alone contemplate an expansion of their food imports. This is one of the most critical issues facing the Western World in 1983, and one which must be confronted decisively in the coming weeks.

Please understand that I am not suggesting credit competition between Canada and the United States, or between and among any of the developed nations. Subsidized interest rates by countries like ours make no sense at all, other than in a foreign aid context. They should not be an element of commercial competition between us, and our respective governments should seek diligently to avoid that result. Unfortunately, the world of export credits is still an imperfect one, and none of us can take pride in the limited progress that has been made.

Our LDC customers are desperate for credit at any cost. Consequently, some exporters may seek to take advantage of their plight. I hope Canada and the U.S. will not be in that category. It is imperative that creditors demonstrate a great deal of patience and tolerance during these trying times. Unless that occurs, major elements of the international monetary system could easily collapse, in which case Canada and the U.S. would both sell a whole lot less grain.

My second caveat relates to protectionism. When the economic going gets tough, the natural inclination of all countries is to reduce imports. Unfortunately, that can be counterproductive in many ways, and it is assuredly counterproductive for one's export industries. If imports are reduced through government edict, "voluntary" restraint programs, or other means, global trade will decline, and exports must ultimately shrink as well. This is a vicious cycle destined to exascerbate global economic conditions, and doomed to worsen most everyone's level of living. It is a foolish policy, but one which is politically very difficult to resist.

The dangers of protectionism were articulated well this past week by Brazilian Finance Minister Delfim Netto in a speech to the Chicago World Trade Conference. The Minister, who has the enviable task of presiding over one of the world's largest international debt burdens, pointed out that lenders today want everybody to expand exports and limit imports. But that is impossible in a global context. Delfim Netto went on to point out that even developed nations such as the U.S. see export expansion as a parameter of economic recovery, while they simultaneously seek ways to protect uncompetitive industries from foreign competition. "How can Brazil be expected to pay off its debts," said Delfim Netto, "if countries like yours are unwilling to further open your markets to us. You leave us in a Catch 22 situation with no hope." We would all do well to heed the Minister's warnings.

A third caveat relates to agricultural export subsidies, an area in which Canada and the U.S. have a common problem with the European Economic Community and, at times, other nations as well. A global economic recovery will not restore the health of our respective agricultural export sectors if their sales efforts are undercut by subsidized competition. As you probably know, the EEC is spending nearly $8 billion per year on agricultural export subsidies, and the Community has now become one of the world's major exporters of farm products. In the absence of export subsidies, that clearly would not have occurred. EEC subsidy practices are wreaking havoc in traditional Canadian and American export markets nearly every day of the year. Our farmers, through their export firms, and your farmers through Canadian export agencies, simply cannot be expected to compete with the EEC treasury.

It is imperative that we work together to bring some sense and rationality to the export subsidy picture. GATT rules in this area are grossly inadequate. The export subsidy code negotiated in the Tokyo Round has major shortcomings and will have to be amended if we are to avoid a subsidy war among agricultural exporters.

One could easily extend that concern to other agricultural trade issues as well. We have shunted them to the sidelines in far too many rounds of GATT negotiations, giving free or fair trade in farm products lip service at best. We no longer have that luxury; we are now paying the price for past procrastination in confronting these complex and politically volatile issues. Confront them we must or the GATT will lose any influence that it has in the agricultural arena, and trading nations such as ours will be forced to unilaterally defend their own interests. That is precisely what occurred in the recent U.S. sale of wheat flour to Egypt. Unless the EEC and other "subsidizers" evidence a willingness to bring some sanity to agricultural trade, the wheat flour sale will likely be a precursor of things to come.

On the demand side, a word should also be said about market development. Agricultural exports came easily, for you and for us, in the 1970s. They have not come so easily since the onslaught of the worldwide recession, and they will probably never come as easily again. Dr. D. Gale Johnson, an eminent agricultural economist at the University of Chicago, believes that demand for U.S. ag exports will grow much more slowly during the 1980s than during the 1970s. He cites a host of very persuasive reasons for reaching this conclusion. If Prof. Johnson is correct, we both have our market development work cut out for us.

It is not an impossible task; the potential is there. Neither is it an unpleasant task, for working with other cultures is a self satisfying experience. Nor is it unrewarding, for every additional export sale means more jobs and higher farm and agribusiness incomes in Canada and the United States. But market development requires skill, persistence, determination, and a long term commitment of resources.

Neither of us is doing this job as well as we should. Nor are we placing the emphasis on high value agricultural exports that we should be. Of the $230 billion in world agricultural trade at the beginning of this decade, only $120 billion was in high value products (semi-processed, such as meat, flour, and oilseeds; highly processed, such as dairy products; or high value unprocessed, such as fruits and vegetables). And we in the U.S. had only 10% of that lucrative high value market, as compared to 30% for lower value, unprocessed products such as grains. If the U.S. could capture 20% of the high value market in this decade, it would add immeasurably to our farm export values even if tonnage were to increase only modestly as predicted by Dr. Johnson. I am sure that Canada would also benefit from further efforts to develop its high value exports.

Export Supply

Now to the supply side. As burdensome grain surpluses evolved in recent years, the first response of producer countries was to expand storage. That was a logical, understandable, and perfectly rational move. It isolated some of the surplus from the market, thereby avoiding a precipitous decline in world prices. Though storage is costly, the trade-off in price maintenance was attractive, particularly since the glut was expected to be only temporary.

Your Minister of Agriculture has stated that he would rather store excess production than reduce output. In doing so he made the point that Canada was caught short a decade ago and did not have enough grain to fill its export orders. Determined not to let that happen again, Canada has continued to expand production in recent years as global surpluses have mounted. So have most other grain producing nations, and until this year U.S. policy has encompassed a massive storage program, and only modest efforts at curbing production.

All of us should have given these policies much more consideration -- and much more coordination -- about a year ago when it became apparent that this "temporary" glut was not so shortlived. That was the time to respond, before things got totally out of hand. Now we are "slamming the barn door after the horse is out." U.S. farm incomes deteriorated to the point where drastic action had to be taken. The U.S. response is encompassed in our PIK (payment in kind) program, in which surplus commodities are being made available to American farmers as compensation for withdrawing more than 80 million acres of land from production in 1983. The cost of this and other farm program payments will be an astonishing $20 billion or so, by far the highest in our history. PIK is a popular program with farmers, a successful program in achieving acreage reductions, but a costly one that cannot endure for long.

My principal complaint with PIK is that it constitutes a unilateral effort by the United States to reduce farm surpluses. The present supply imbalance is a global phenomenon, not an American one. It is "global" in the sense that it encompasses the universe of agricultural exporting nations, Canada included. For the United States to reduce production while other exporting nations merrily expand output makes no sense at all. The scenario simply represents a transfer of wealth from the American taxpayer to the taxpayers of the EEC, Canada, Australia and Argentina. It may also reduce our market share in the process. All in all, unilateral supply reductions by the U.S. or any other producing country are indefensible from a competitive viewpoint.

The answer is for all major agricultural exporters to share this adjustment burden. That ought to be done through discussions between and among the agricultural ministers, hopefully achieving a consensus as to the contribution each nation would make to the (hopefully temporary) supply control cause. That contribution might be an expanded storage program, restricted production, or both.

Each of the ministers of agriculture ought then return home and carry out his commitment in his own way. This does not necessitate an international grains agreement; I am not a fan of international commodity agreements of any kind. They have been wholesale failures through the years, and there is no need to re-invent that faulty wheel. Furthermore, it is none of our business how Canada or any other country achieves its policy objectives, or vice versa. What is important is that nations with a common problem agree on basic objectives for responding to that problem, make the necessary commitment to respond, and then go home and work diligently toward doing so.

Supply control, storage, and price support schemes are a reality in most agricultural nations, and with all their shortcomings they are not likely to disappear from the policy scene. Tools such as this can be helpful from time to time in periods of supply-demand imbalance, and this seems to be one of those times. But we should not become dependent upon such programs for our agricultural livelihood. Market fundamentals still do a far better job of sending production and marketing signals to farmers than do government bureaucracies, and we ought never forget that. The market also provides that information at a whole lot less cost than governments do.

Productivity

Finally, everything I have said to you today is of no relevance if our farmers are not among the most efficient and productive in all the world. If we lose our agricultural competitiveness, government policies are essentially meaningless. They can provide protection in the short run, and ease the transition to other occupations. But they cannot keep our agricultural industries in business long term if market fundamentals point the other way. Therefore, it is incumbent on all of us to help sustain the impressive productivity of American and Canadian agriculture. That goal applies to production, processing, domestic marketing, and international marketing endeavors, and it implies the continued need for effective research and extension programs, rapid technology adaptation, a modern agricultural infrastructure, the development of high level managerial skills, etc. I mention this subject today only because it is fundamental to everything you are doing at this conference.

The Canada-U.S. Relationship

In closing I wish to say a word about the relationship between our two great countries. No one questions the depth of our friendship. Canada's support during the Iranian hostage crisis was vivid and heartwarming evidence of your affection toward your big neighbor to the south. It was a truly magnificent gesture. On our part, it is my judgment that Americans feel a closer affinity to Canada today than to any other nation. That is a fabulous human bond on which to build extensive economic and political relationships.

You Canadians seem to have some trepidation about going too far too fast in your economic liaisons with us, and that is understandable. You are a strong and vibrant nation in your own right, with the sovereign right to establish whatever national policies and priorities you wish. Nevertheless, I hope all Canadian citizens, including those in this room, will consider the long term benefits to Canada of open trade with the United States. That is a distant goal, though much progress has already been made. But consider the immense economic strength of a pair of nations with more than 300 million people, an incredible combined GNP, one of the highest per capita incomes in the world and, agricultural production plants second to none. If we can both capitalize on these strengths, identify and nourish our synergisms, and work together on international opportunities of common benefit, we shall truly experience "recovery" in the coming decade.