

THE INTERNATIONAL WHEAT AGREEMENT

by
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The question of the participation of the United States in an International Wheat Agreement is being re-considered. The last session of Congress failed to ratify the Agreement which had been worked out by representatives of 36 nations. These same nations are now in process of negotiating a new Agreement which will be submitted again for ratification by Congress. There is a possibility that the U.S.S.R. and Argentina will become members. It is well to review briefly the elements involved in the proposal which failed to get Congressional approval last year.

Basically its purpose was to assure supplies of wheat to importing countries and markets to exporting countries. For a period of 5 years Canada was to supply 230 million bushels of wheat, Australia 85 million bushels and the United States 185 million bushels per year.

This amount annually (500 million bushels) was to be sold under guaranteed price floors and ceilings as follows:

Crop Year	Floor \$	Ceiling \$
1948-49	1.50	2.00
1949-50	1.40	2.00
1950-51	1.30	2.00
1951-52	1.20	2.00
1952-53	1.10	2.00

These prices were to be for No. 1 Manitoba Northern wheat in store Fort William, Port Arthur, Canada. Adjustments were to be made for transportation costs and exchange rates prevailing for each country.

The Problem

Since the end of the war, there has been a world shortage of wheat. World trade was disrupted by the war and the shortage of dollars in importing countries casts a shadow on all attempts to restore it. But even if we could temporarily restore world trade in general, wheat would soon fall into its pre-war difficulties. Exporting countries would again be searching frantically for markets. In the words of Secretary of Agriculture Brannan: "We all remembered what happened after World War I when some of the nations of Europe, feeling that they had to rely on their own resources, inaugurated a drive toward self-sufficiency in wheat production. That action was costly to the people of Europe in terms of higher prices for their basic food product. It cost the wheat farmers of the United States a sizable part of their foreign market. It was costly to the whole world in that it led to the construction of trade barriers which were the preamble to World War II."²

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²Office of the Secretary, U.S.D.A., July 9, 1948.

Will We Be Trading On a Large Scale?

The relative position of the United States as a grain exporter changed in the past few years. During the years 1934-38 this country accounted for about 6.5 percent of the total world exports of bread grains, practically entirely of wheat. Canada held the major part of the world market at that time (32 percent) with Argentina

Wheat Production and Domestic Consumption, United States, 1909-48¹
(Millions of Bushels)

Year	New Crop	Total Domestic Disappearance ²	Production Above Domestic Use
1909	684	538	146
1910	625	537	88
1911	618	552	66
1912	730	568	162
1913	751	612	139
1914	897	607	290
1915	1,009	609	400
1916	635	596	39
1917	620	555	65
1918	904	580	324
1919	952	647	305
1920	843	574	269
1921	819	579	240
1922	847	603	244
1923	759	620	139
1924	842	613	229
1925	669	584	85
1926	832	611	221
1927	875	677	198
1928	914	656	258
1929	824	617	207
1930	887	750	137
1931	942	753	189
1932	756	719	37
1933	552	629	- 77
1934	526	655	-129
1935	628	661	- 33
1936	630	690	- 60
1937	874	701	173
1938	920	714	206
1939	741	664	77
1940	815	676	139
1941	942	668	274
1942	969	948	21
1943	844	1,216	-372
1944	1,060	987	73
1945	1,108	894	214
1946	1,153	769	384
1947 ³	1,365	764	601
1948 ³	1,284	698	586
1909-41 Average	784	631	171
1909-48 Average	841	677	197

¹Reported in The Wheat Situation

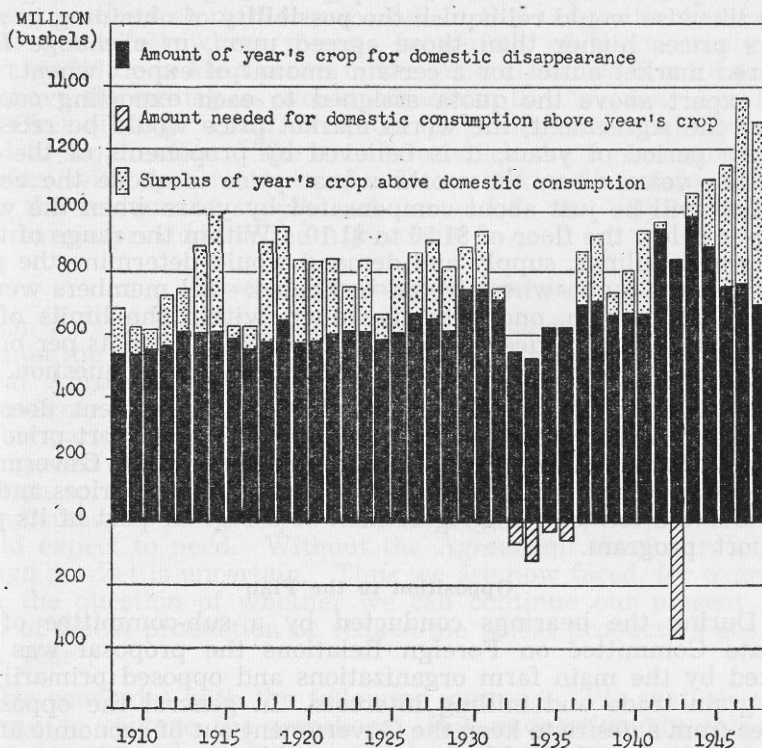
²Preliminary

³The amounts processed for foods, used for feed and seed and industrial uses.

second in importance (23 percent). Russia was exporting 5 percent of the total. In contrast, by 1946-47 the United States was exporting 52 percent and in 1947-48 about 50 percent of the world's total. Russia, during the past two years shows only insignificant exports and Argentina has between 8 and 12 percent of the total 1947-48 international market¹. These major shifts in relative export status suggest that present trading is far out of line with the normal situation.

From Table 1 it may be observed that in the long run (1909-48), the United States has had an exportable wheat surplus of about 200 million bushels per year. The pre-World War II average was slightly lower, around 170 million bushels. In the long view, it means that the Nation required market outlets for about two hundred million bushels per year. During the last 39 years, from 1909 to 1948, there were only 5 years when domestic consumption exceeded the Nation's production. Two aspects of these data are of particular importance: (1) in the long-run an export market for about 200 million bushels of wheat was needed and, (2) national production during the last five years has exceeded the billion bushel

Wheat Production and Domestic Consumption, United States, 1909-48.



¹Foreign Agricultural Circular, Office of Foreign Agricultural Relations, U.S.D.A., August 31, 1948.

level, which increased the export surplus substantially above the long-time average.

While no one can ascertain the precise production levels which will prevail in the future, recent technological advances (notably chemical weed control and improved varieties) suggest continued higher levels than pre-war. And, since domestic disappearance for direct human consumption and seed remains fairly stable the following alternatives for disposing of our wheat crop suggest themselves: (1) securing a larger share in the world market, (2) production controls, (3) expansion of industrial uses of wheat and, (4) increasing the use of wheat as a livestock feed. The emphasis is likely to fall on the first alternative—that of larger exports.

The Proposal

In the International Wheat Agreement, export countries are emphasizing the need for a more secure position in the export market. Importing countries need some assurance that they will be able to get this staple food in dependable quantities at reasonable prices. For an assured minimum supply the importing countries would take a chance that the proposed price schedules would not be far out of line, over a period of years, with the so-called "free-market" prices they would have to pay otherwise. Exporting countries likewise would relinquish the **possibility** of obtaining in some years prices higher than those agreed upon, in exchange for a secured market outlet for a certain amount of export wheat. For any export **above** the quota assigned to each exporting country under the Agreement, the world market price would be received. Over a period of years, it is believed by proponents of the plan that the years when the world wheat price is above the ceiling of \$2.00 will be just about compensated by years when the world price is below the floor of \$1.50 to \$1.10. Within the range of these floors and ceilings, supply and demand would determine the price at which the quota wheat would be traded. All members were to be free to bargain, one with the other, within the limits of the ceiling and floor. Prices could vary from 50 to 90 cents per bushel under this arrangement, depending upon the year in question.

It also should be pointed out that the Agreement does not conflict with our price support program. If the support price was higher than the ceiling price under the Agreement, the Government would buy wheat up to our export quota at support prices and sell it under the terms of the Agreement as a regular part of its price support program.

Opposition to the Plan

During the hearings conducted by a sub-committee of the Senate Committee on Foreign Relations the proposal was supported by the main farm organizations and opposed primarily by the grain trade and milling interests. In general the opposition arises from a desire to keep the Government out of economic affairs as much as possible. Most people would support this aim. One point to remember however, is that the export quota transactions

would be one means of sustaining the domestic agricultural support program. The Government would have had a guaranteed price of \$1.10 to \$2.00 per bushel, depending upon the year in question and the general economic conditions. Furthermore, the absence of any general agreement has already stimulated an upsurge in bilateral trading. World recovery requires a much broader framework of cooperation.

But there are other considerations. In the first place Argentina's position is indeterminate. As was pointed out earlier, Argentina exported about 23 percent of the total world exports of bread grains during the years 1934-38. Today she supplies about 12 percent of the total. In the long-run she may hold as much as one-quarter of the market. The question is therefore: could Argentina through reduced prices lure members to the Agreement away from their contracts? The same question applies to the position of Russia. It is the age-old problem of making cooperative efforts succeed where non-cooperators are competing for markets.

Whether the Agreement would have had a strong effect on the world price is difficult to determine. To begin with the fifty-to ninety-cent margin was provided for bargaining purposes. As long as the free market price fell in this range the Agreement would not affect wheat prices. In periods of short supply the effect would be to keep prices in the general market from rising as far above the ceiling as would otherwise be the case. Similarly the effect of large world stocks on price declines would be mitigated to some extent. The extent to which the Agreement would interfere with open market price determination therefore depends upon the relation of supply and demand to the fifty to ninety-cent margin provided in the Agreement.

Secretary Brannan's Comments

On July 9, 1948, Secretary Brannan issued a significant statement on the failure of the United States to ratify the International Wheat Agreement. He said in part: "The International Wheat Agreement, if put into effect, would have guaranteed us a market in the participating countries of 185 million bushels of wheat during each of the next five years at a fair export price. This, in addition to our exports to occupied zones and other non-participating areas, would have provided as large an export market as we would expect to need. Without the Agreement the future of our foreign market is uncertain. Thus we are now faced, for example, with the question of whether we can continue our present high level of wheat production or reduce the wheat production goal for next year".

He concludes with the following warning: "We shall do what we can to salvage the wreckage. But unquestionably this will be in an atmosphere less favorable than the one in which the present Agreement was negotiated. Without the cooperation of

all who are truly concerned with the future welfare of American agriculture, however, it would not be fair to the farmers of the Nation to give them any great encouragement”.

As this goes to press we are informed that a new pact has been drawn up. If this is ratified by all nations framing the new agreement, 42 nations will be participants. Newspapers report that under the agreement, 37 nations will take a little over 456 million bushels of wheat a year for four years from five exporting nations. Russia and Argentina however, are not among the exporters.

The proposed shares of the market involved annually in this agreement are reported to be as follows:

Canada	203,069,635	bushels
United States	168,069,635	“
Australia	80,000,000	“
France	3,306,934	“
Uruguay	1,837,185	“
Total	456,283,389	bushels

France and Uruguay have found a place in the new agreement but the maximum price will be \$1.80 per bushel or 20 cents lower than the original proposal. The floor price begins at \$1.50 per bushel for the first year and decreases by 10 cents for each of the four years to \$1.20 per bushel in the final year. If ratified, the agreement will become operative August 1, 1949.