with a replacement of many national programs by overall Community programs. Many serious obstacles have had to be overcome. In order to get agreement, the policies adopted have often been as restrictive to trade as the most restrictive existing national policy.

As previously mentioned, the European Free Trade Association has made no attempt to eliminate all restrictions on trade in agricultural products because of the difficulties foreseen in reconciling national policies with free trade.

The Montevideo Treaty provides that agricultural products be included with others in the liberalization process within the Latin American Free Trade Association.

However, the appearance of many problems has led to the consideration of norms for agricultural trade recognizing that exceptions will have to be made for many agricultural products beyond the end of the transition period.

The Central American Common Market has many agricultural products on its special list of products exempted from the liberalization schedule. Coordination of national policies on the basic grains is provided for, but trade is regulated by the price support agencies in each country.

Future expansion of agricultural trade opportunities requires that ways be found to (1) improve access to importing countries, (2) achieve more rational export policies among exporters, and (3) obtain reasonable and more stable world prices.

There is general recognition of the relationship between domestic agricultural policies and trade restrictions. Policies of both regional trade groups and individual countries must be modified.

Careful and lengthy preparations will be required to identify areas where adjustments can be made in domestic policies that will permit easing trade restrictions while retaining measures to support domestic agriculture.

A LOOK INSIDE DEVELOPMENTS IN EAST-WEST FARM TRADE

THE CENTRALLY PLANNED economies—the Soviet Union, Eastern Europe, and Red China—had a major impact on world agricultural markets during the decade of the 1960's which generated considerably more interest in their agricultural trade than previously.

Immediate cause of this interest was the massive movements of these countries into and out of the grain market, especially the wheat market, during 1963–66. China's gross wheat imports rose from 2.6 million tons in 1961 to 4.4 million tons in 1963, and reached 6.4 million tons in 1966. The Soviet Union's gross wheat imports were negligible in 1962, but rose to 3 million tons in 1963, and reached 7.6 million tons in 1966.

Imports by the East European countries did not increase as significantly, but they were shifted to Western markets as the Soviet Union's wheat supplies dwindled.

It would be hard to exaggerate the impact of these purchases on the major world grain exporting countries. Coinciding with large imports of wheat and grain by India and Pakistan, they have virtually transformed the world wheat picture from one of persistent, troublesome surpluses to one of a dangerously rapid drawdown in stocks.

Production was expanded in the

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exporting countries only to find that the market had dried up almost as rapidly as it had appeared, because grain production in the USSR and Eastern Europe also rose sharply after 1965. The USSR's gross wheat imports dropped from 7.6 to 1.3 million tons between 1966 and 1968. China's wheat imports dropped from 6.4 to 4.3 million tons in the same years.

Eastern Europe turned again to the USSR for much of its grain, and began to expand its own grain production and exports rapidly so that its net grain imports dropped 4 million tons between 1967 and 1968.

Some of the other large buyers of the 1963–66 period also reduced their purchases—India's cereal imports fell from 10.4 to 5.7 million tons between 1966 and 1968. By 1969 world grain exporting countries found themselves again faced with large stocks, which weakened prices and produced reversals in domestic grain policies.

But grains were not the only internationally traded agricultural commodities affected by trade shifts of the planned economies. During the sixties cotton, sugar, vegetable oils, and oilseeds suffered from sharp and often erratic movements in exports and imports by these countries.

The Soviet Union burst on the world vegetable oil market in the early 1960's as a net exporter, after long being a net importer of oils and seeds. By 1962 its vegetable oil exports grossed 152,000 tons, jumping to 456,000 tons in 1966, and 770,000 tons in 1968. This produced a sharp drop in vegetable oil prices.

Bulgaria and Romania also moved into an export position, sparked by the same expansion of sunflower production which produced the Soviet exports.

Russia's gross exports of refined sugar rose from less than 250,000 tons in 1960 to over 1.3 million tons in 1968, and Russia takes a large part of Cuba's exports of raw sugar. Russia's lint cotton exports moved up from 322,000 tons in 1963 to 554,000 tons in 1968. Soviet exports of flour, beans, peas, and butter also made sharp gains during 1965–68 in markets where they had not previously been a factor.

These commodity movements generated two questions in the minds of a large number of previously unconcerned persons: first, "How large is the market in the planned economies likely to be?"; and then it quickly shifted to "How strong is the competition likely to be?" Now with some leveling off in these commodity movements, a more sober view is being taken of both export and competition prospects.

This interest is a far cry from the lack of concern of the 1950's, when many of these countries wallowed in the throes of recovery from war, the early stages of collectivization, and autarchic policies which stressed self-sufficiency. Mediocre agricultural performance represented no competitive threat, and tight controls over imports of food, despite shortages and rationing, gave little hope of these countries becoming a market.

The changes in trade of the planned economies during the 1960's demonstrated three things:

- They served notice that these countries had achieved at least some modicum of success in agriculture, and should be considered seriously as potential competitors.
- They underscored the unstable nature of agricultural production in many of these countries, especially the USSR and Southern East Europe, which meant that export surpluses or import requirements could change quickly.
- Most important of all, they showed that these countries would spend hard currency on food imports, if serious shortages developed, and were no longer able or willing to restrict domestic diets too sharply in the face of domestic shortages—this was not the case earlier.

These developments coincided with another change, at least in the USSR and Eastern Europe, which could prove to be of far more long-lasting importance to the future agricultural trade of these countries—the emergence of economic reforms.

Attempts at economic reform in the USSR and Eastern Europe are the result of the gradual realization during the 1960's that the "Command Economy" imposed in the Soviet Union in the late 1920's, and applied to Eastern Europe in the late 1940's, had serious limitations.

The "Command Economy" produced certain kinds of rapid industrial development, especially in countries with considerable underutilized resources, as in Bulgaria and Romania. But it was hard pressed to cope with the problem of more complex economies with large urban sectors and consumers whose incomes were rising, as in Czechoslovakia and East Germany. The goal of self-sufficiency seriously reduced production possibilities of the smaller countries of Eastern Europe that depended on trade.

Sectors which had been neglected and even exploited to advance industrial development during the 1950's—agriculture and consumer goods—logically became the ones most in need of improvement during the early 1960's.

First efforts to correct these deficiencies took the form of improving the relative priority of agriculture in the economies of Eastern Europe and the USSR. Improvements in prices, speeded-up deliveries of machinery and fertilizer, and less rigid planning and production methods helped greatly in the recovery of agricultural production in these countries.

After increasing only about 8 percent from 1958 to 1963, agricultural production in Eastern Europe rose 20 percent between 1964 and 1967. In the USSR agricultural output in 1963 was lower than in 1958, and had only been slightly above the 1958 level in the intervening years. But by 1968 it had risen more than 30 percent above the 1958 level.

The increased effort in the agricultural and consumer goods sectors was of considerable benefit, but it did not change the need for more fundamental economic reform which most of the countries were experimenting with, and some began to put into effect after 1966.

The objective of these reforms is the gradual introduction in the planned economies of what has come to be called "market socialism." Market socialism means essentially that the scope for market forces to reflect relative scarcities and competing demands within a country is broadened, while the economy still retains many elements of planned economic management and direction.

Economic reform has proceeded much further in Yugoslavia than in the other countries, and has made the least progress in the USSR and Romania.

As economic reform develops in these countries, there is a good possibility that production in industry and agriculture will more closely reflect their comparative advantage position (greatest relative efficiency in producing similar products) and efforts to satisfy the demands of consumers.

How fast these reform movements will proceed is difficult to predict. At present, progress has been limited, except in Yugoslavia and Hungary, and the relative position of the consumer and agricultural producer is still clearly subordinate to that of the national planning bodies. Even if the pace of reform is improved, however, there are still many stumbling blocks to rapid shifts in trade patterns.

Foreign trade is the monopoly of the government in each of these countries, and bilateral trade agreements are the dominant method of conducting trade. Limited foreign exchange impedes their imports from western countries, as does a general reluctance to import agricultural products and a high priority for imports of industrial products and technology.

Furthermore, the USSR dominates the agricultural trade of Eastern Europe, and the Soviet has given no indication that it wishes to relinquish its hold. The USSR is also the major country attempting to foster the further development of COMECON, the trading bloc organization for the USSR and Eastern Europe. There are also impediments to trade with these countries by Western governments, including the United States.

Despite these impediments, and without much economic reform, the agricultural trade of these countries (especially Eastern Europe) expanded greatly in the 1960's.

The planned economies are not uniform in their level of economic development or in their agricultural production possibilities. Per capita incomes range from a high of about $1,800 in East Germany and Czechoslovakia to a low of $760 in Yugoslavia, with the USSR, Hungary, Poland, Bulgaria, and Romania ranking in between in that order.

Industrial East Germany and Czechoslovakia have limited production possibilities, use relatively large amounts of productive inputs, such as fertilizer, and are large net importers of agricultural products. Poland, Yugoslavia, Bulgaria, and Romania, on the other hand, are still a long way from being industrialized-urban economies. Bulgaria, Hungary, and Romania are net agricultural exporters, while Poland and Yugoslavia both export and import, with imports having a slight edge for Poland.

Consumption patterns in these countries correspond more closely with their relative standard of living than might be assumed, and do not in most cases differ greatly from Western European countries with comparable standards of living.

Thus, the planned economies comprise a diverse group of countries, some of which are, and will continue to be, large net importers of agricultural commodities, while others will certainly be sources of increasing competition.

The USSR imports about $1.3 billion a year of food products. Russia's food exports amount on the average to about $1 billion. Although grain imports have been the major interest in recent years, grains are much less important than fruits and vegetables, sugar, alcoholic and nonalcoholic beverages, cotton, and tobacco and tobacco products.

Eastern Europe is an even more important agricultural market, and growth of this market has been rapid. Agricultural imports by the Eastern European countries amounted to $3.5 billion in 1967 and were twice the 1955 level. But agricultural exports were $2.9 billion in 1967, over 3 times the 1955 level, a more than 10 percent annual increase.

Of special note is the rapid growth in agricultural exports of Bulgaria, Romania, Poland, and Yugoslavia. These countries are at present the least developed in Eastern Europe, and have the greatest potential for agricultural growth. The first two are relatively small markets except for certain complementary commodities, but East Germany and Czechoslovakia are each large markets for a wide variety of agricultural products, while Hungary and Poland continue to be sizable markets.

The United States has been relatively unimportant in the agricultural trade of the planned economies. U.S. agricultural exports to the USSR have never been large, except in 1964—the only year the United States shared in the Russian wheat purchases.

U.S. agricultural exports to the USSR declined to a low of $5.3 million in 1968. U.S. agricultural imports from the USSR are even smaller than exports, amounting to only $2.2 million in 1968.

Political considerations on both sides are undoubtedly the important limiting factor in U.S.-USSR trade. There is essentially no commercial U.S. agricultural trade with Mainland China and Cuba for much the same reason.

Of the seven major Eastern European agricultural commodity imports, the United States has had a significant share of only one—grains. The USSR has had the largest share of grains and cotton, while other countries have dominated Eastern Europe's imports of rice, oilseeds, tobacco, and sugar.

In the 1960's, U.S. agricultural exports to Eastern Europe fluctuated between $150 million and $250 million rising from $159 million in 1961 to $266 million in 1964, and then falling to $144 million in 1967.

U.S. food grain exports to the area have declined sharply, but feed grains have held up well, and oil cake and oil meal exports have shown strong growth.

Important trends have been the decline of Poland as the major importer of U.S. agricultural products in the region—it dropped from 78 to 15 percent between 1960 and 1965, but rose to 34 percent in 1967; the continued sizable but shrinking share taken by Yugoslavia—between 35 and 40 percent; and the rise of the other countries as importers of U.S. agricultural products since 1963—from less than 2 to almost 30 percent in 1966 and 1967.

The loss of favorable Public Law 480 (Food for Peace) in 1965 contributed to the decline in U.S. wheat exports to Poland and Yugoslavia. And improved production in Eastern Europe and the USSR after 1965 was the major factor producing the decline in imports by many of the countries in 1967.

Absence of a strong U.S. presence in the Eastern European market is in large part explained by the need for credit, and the wide variety of restrictions on trade.

Credit sales under the Commodity Credit Corporation accounted for 42 percent of all U.S. agricultural sales to Eastern Europe in 1967 (excluding East Germany). This compares with 15 percent in 1966, and only small credit sales to Poland in 1963 and 1964.

Credits can be an effective stimulant to trade in this area of the world, particularly if the credit terms are competitive. Credit was a major factor in maintaining U.S. exports to Poland and Yugoslavia after the withdrawal of Public Law 480 arrangements.

Present restrictions on trade are a major cause for limited U.S. agricultural exports to the area. The cargo preference restriction, for example, which requires that 50 percent of U.S. wheat cargoes destined for Bulgaria, Czechoslovakia, East Germany, and Hungary must be carried by U.S. ships, adds to the cost of U.S. wheat shipments.

Feed grains do not have the same cargo restrictions. But if feed grains are shipped on foreign flag ships, part of the cargo must be destined and first unloaded in a West European or Mediterranean country, including Yugoslavia.

U.S. wheat and feed grain exports to Poland, Romania, and Yugoslavia are not subject to these shipping restrictions. Exports to these countries may move freely on foreign flag ships subject only to the qualification that Poland and Romania may not be considered as the recipient of a "part cargo" of feed grains that is destined to other East European countries. At the present time, Poland is the only country among this group that is importing commercial quantities of grain from the United States.

Validated licenses for shipments of selected agricultural commodities are also required for all countries except Czechoslovakia, Poland, Romania, and Yugoslavia. Applications for licenses are easily obtained and it is rare that a license for the export of agricultural products is refused, but the existence of this small impediment may discourage interest by some firms.

U.S. exporters are also exposed unnecessarily to actual or implied policies to impose trade restrictions on American products by some East European countries. These restrictions currently are not considered impediments, but are a nuisance.

From the East European point of view, the lack of Most Favored Nation treatment (a provision in a commercial treaty that binds all contracting nations to the same favorable trade concessions) for Czechoslovakia, East Germany, Hungary, and Romania places their exports at a competitive disadvantage in the U.S. market, and reduces their potential dollar-earning capacity.

Hungary's current policy gives a preference to countries that extend Most Favored Nation treatment, which in effect places U.S. exporters in a disadvantageous position. Czechoslovakia faces a severe shortage of hard currency and places surcharges on non-priority items, many of which are agricultural.

Poland and Yugoslavia are the only active members of the General Agreement on Tariffs and Trade (GATT). While the special relief features are available to these countries, the imposition of surcharges or flexible import taxes by Yugoslavia affects the sale of U.S. agricultural products to that country.

Probably more important to U.S. traders are the shortcuts Western Europe has to the East European market. For example, the Interzonal Trade Agreements between the two Germanys allows for exchanges that do not follow the true pattern of trade under competitive conditions. The closer West European ties with Eastern Europe add a hidden strength in negotiating commodity exchanges with Eastern Europe.

To meet this competition, an accommodation to the present restrictions now in force is necessary. Granting the Most Favored Nation treatment to all countries may not guarantee additional dollar sales of agricultural products, particularly since trade in planned economies is still a function of administrative decisions rather than a response to effective demand (the desire to buy coupled with ability to pay). But a review of existing constraints to agricultural trade with these countries is certainly in order.

In the final analysis, U.S. agricultural trade with Eastern Europe is contingent on the removal of existing trade impediments by the United States and by the Eastern European countries themselves, on the growth rates and economic diversification within the economies of the area, on the foreign trade policies and possibilities of the USSR, and on the availability of credits and long-term loans.

Future development of trade, however, will probably be much more a function of comparative advantage and competition than was true in the past. But it will be trade in which the planned economies present both a market and a competitor.

SALESMANSHIP HELPS EXPAND OUR MARKETS

BUILDING U.S. agricultural trade abroad is a big job. Competition is tough. But the stakes are high. For the harvest of one acre out of five goes to foreign markets.

Problems of selling abroad are many sided. Just to mention a few, it takes the right price, the right product as seen through the eyes of the foreign consumer, and freedom from barriers that deny access. But even when these items are right, it still requires traditional American salesmanship so as to keep old customers coming back for more and to get new ones to give our products a try.

Uncle Sam's Department of Agriculture has teamed up with industry to provide added salesmanship for our agricultural products around the world. The program is fairly new, stemming from the "Agricultural Trade Development and Assistance Act of 1954," which is popularly known as Public Law 480. A small portion of the foreign currencies generated from the sale of what were originally surplus agricultural commodities under this