
DINNER SPEECH

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Most of you will have had occasional communication problems with your spouses. The allocation of blame for this is also generally difficult. It is not sufficient to say that there is either something wrong with the transmitter or the receiver. Effective communication not only requires the physical equipment to be in good working order but the mental equipment as well.

Perhaps the most celebrated example of such distinctions arose when Vice-President Bush received the Republican nomination for the presidency of the United States in 1988 and he was faced with the difficult problem of choosing a running mate for the election. He felt he needed some advice from a major international figure and phoned Mrs Thatcher.

"Prime Minister," he said, "I have been thinking of appointing Dan Quayle as my running mate but I can't make up my mind whether he has the calibre to do the job. Can you advise me?"

"Yes, Vice-President" came the reply. "I fully understand your difficult position. Recently I was in a similar position when I had to make a crucial appointment. I was considering making Sir Geoffrey Howe my Chancellor of the Exchequer and I asked him this question. Sir Geoffrey, you are looking at a picture of a man and you say 'brothers and sisters have I none but this man's father is my father's son. Who is the man in the picture, Sir Geoffrey?' 'Prime Minister, it is I', he said and I immediately decided to appoint him." There was a long silence and Vice-President Bush eventually said, "Thank you Prime Minister" and put the phone down.

He then called in Dan Quayle, told him he was thinking of appointing him as his running mate

but wished to ask one question.

Dan Quayle, on hearing the question, stated he had a very serious headache and could he get an aspirin and he would return with the answer. Quayle went out and immediately phoned Henry Kissinger and asked him the same question. "It's me, Henry Kissinger" came back the reply. "Thank you very much" said Quayle and returned to Vice-President Bush's office. "Mr Vice-President", he said, "my headache has gone and I have got the answer to your question. The man in the picture is Henry Kissinger." "No, you fool," said Bush, "it is Sir Geoffrey Howe."

If we are to do better tonight, not only must you hear me but I must be understandable and understood. Several years ago, Professor Tweeton from the Ohio State University was a guest speaker to the South Africa Society of Agricultural Economists and he concluded that the world market in agricultural products was going to be a pretty unpleasant place as the distortions built up over the last two decades unwound and that the best strategy might be for the little mouse, South Africa, to sit quietly in the corner while two elephants, the USA and EC, fought it out. Unfortunately, the little mouse has been unable to sit undisturbed and the environment in which agriculture produces is liable to be profoundly changed during the next decade. We need to go back three decades to understand how we have come to this pass.

I was studying in Britain in the early sixties when Charles de Gaulle refused Britain's application to join the European Common Market. The reason was that France did not need Britain's market for its agricultural exports. France, the bread basket of Europe, was still expanding its agricultural exports to its five partners in the EC. It did so behind very high

tariff barriers in a very protected environment. The trouble was that the protected prices were too generous and the initial expansion in France's agricultural production was followed by an expansion of agricultural production in the other countries in the EC. Good agricultural land was farmed more intensively, marginal land in this protected environment also became profitable and as production increased so each country became self-sufficient. What was to be done with the surplus? To compete with the Americas was surely foolish? New protected markets had to be found and the answer was to invite new food importing members to the club. The "six" became the "ten", and later the "twelve". But the new countries which joined the EC followed the same path, farming their land more intensively and bringing marginal land into production in the new highly protected environment. The agricultural surpluses of France and Germany were squeezed out by this new production and were dumped on the world market. The world market in agricultural produce has gone through dramatic changes. The developments in the EC saw country by country turning from net importers of food to net exporters. Initially, demand on the world market shrank as imports were replaced by domestic production and, subsequently, supply to the world market increased as new surpluses were dumped onto that market. In the face of this, prices declined to the point where even the most competitive producers could not compete. However, declining prices did not stem the flow of production from the EC. With all fixed costs covered by high internal prices, it was possible for producers to continue to export provided their marginal costs were covered.

America responded to this competition by establishing floor prices for each product. If any producer was unable to achieve a floor price in the market, he or she was able to borrow money equivalent to the amount that would have been received had the entire crop been sold at the floor price from the Commodity Credit Corporation (CCC). The producer was given six months to sell his crop and repay the loan. If unable to do so, he forfeited his crop but kept the money. The CCC built up enormous stock, the very presence of which kept the price flat on its back which only guaranteed that the next round of production

would also land up with the CCC as further stocks. The cost of first buying and then storing and holding these stocks was enormous and placed huge burdens on the national budget. The growing concern about the budget deficit resulted in other strategies. For example, set aside programmes where farmers were paid not to produce.

I am reminded of the character in *Catch 22* who had become the largest non grower of lucerne in the whole state of Kentucky. When he was asked to what it was that he owed his success, he always replied gravely, "as you sow, so shall you reap."

These policies placed massive burdens on consumers in the EC and on tax payers, particularly future tax payers in the United States. But they also destroyed the economies of many Second and Third World countries, some of which, such as Argentine and Brazil, were really efficient producers of food for the world market. As the subsidised surpluses from the developed world found their way onto the world markets so the terms of trade of the developing world deteriorated. These countries had to export more and more to import less and less.

As the playing fields of competition between agricultural producers became steeper and steeper or more and more distorted, so other countries moved to try and isolate themselves from the policies of the EC and the USA. This was one of the forces leading to agricultural protectionism which mushroomed all over the affluent world.

However, there were other factors leading policy makers to bolster domestic agricultural production despite the cost. In the sixties, the Club of Rome had produced a disturbing book about the world's finite resources. While this was discounted in many circles, the oil crises of the seventies led to wide spread fears of shortages, particularly of food. These concerns were not well founded, particularly as great strides were being made in improving agricultural productivity. But competitive responses and these concerns and fears led governments to continue to stimulate production with high price supports, physical as well as tariff restrictions on imports, and subsidisation

of exports. Each year the problems of surpluses leading to low prices, increased stocks and severe fiscal difficulties were compounded.

The tax payers and the consumers became an increasingly vocal constituency. The set aside programmes where people were paid not to produce and the stories of low priced bread replacing high priced wheat as a food stock for pigs, and of powdered milk, the cheapest form of protein, being incorporated into the feed of dairy cows to stimulate milk production all emphasised the absurdity of the programmes and policies and added fuel to the growing fires of the opponents of these policies.

Despite this growing opposition, there were powerful forces working towards the maintenance of the status quo. The farmers themselves were electorally insignificant but they were well organised and they had the support of major industries, who supplied agriculture and had developed vested interests in ensuring the existing situation continued. Apparently absurd policies had a stubborn life of their own as all the players realised there were political dangers in dismantling the systems of support. Accordingly, the Uruguay Round of GATT negotiations has been so protracted and difficult. The need to end the impasse was realised but, as long as the painful adjustments could be deferred, so they became the problem of future politicians rather than that of the incumbents.

Unfortunately for the mice such as ourselves, we have had to sit and watch the two elephants, the USA and the EC, fight it out. We will be sucked into a new trading situation which we have had no part in shaping, and which has been designed to secure maximum protection for certain players for as long as possible. But the protection seems certain to be removed. Subsidies where they exist will be reduced progressively, quantitative controls will be prohibited, government stockpiling will become outmoded, protective and anti-dumping tariffs will be subjected to international control and steadily fall, export subsidisation, whether direct or indirect, will be prohibited and state or parastatal trading will be banned.

The emphasis is on levelling the playing field and increasing competition in the long run

which will alter the distribution of global food production profoundly. If and when the playing field is level, the Second and Third World countries should improve their competitive position. World prices in agricultural produce will rise and those countries with weak or very poor domestic economies who nevertheless have continued producing such products can expect a considerable improvement in their terms of trade.

In my own industry, the sugar industry, we are ranked as one of the lowest cost producers in the world and we would expect an opportunity to expand production if and when the playing field is levelled. Our fear, however, is that in the initial years there will be little change in world prices and we will become increasingly exposed to competition from a hugely distorted world market. In other commodities where government stockpiling has played a significant role, world prices could well be further depressed as stockpiles are run down before rising to a level rewarding to internationally efficient producers. It will get still darker before the dawn comes. Accordingly, in South Africa the less efficient producers will cease production and a significant further contraction of the area dedicated to crop production each year can be expected.

My remarks should have some relevance to the Fertilizer Society of South Africa. What I am suggesting is that agricultural production, apart from those specialist fields of fruit, flowers and vegetables, will be facing a lateral contraction over the next decade. I see little advantage for South African crop production in the unfolding international scenario. However, I do see new opportunities emerging in a few areas where we are internationally competitive and countries in Southern Africa which have high agricultural potential could develop rapidly. Of these, Zambia looks one of the most encouraging prospects.

Mr Chairman, ladies and gentlemen, thank you for the invitation to address you this evening and for inviting me to this splendid banquet. It is particularly pleasing for me to have been part of the occasion when you have honoured two such distinguished contributors to our industry as Drr Graeme Shuker and Tony Wood. I thank you for involving me in that.