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ELEVENTH GENERAL CONFERENCE, NEW DELHI. INDIA

1959

Contents

IFAP

Document AC 1/59
29th June 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

DRAFT AGENDA OF THE
STANDING COMMITTEE ON AGRICULTURAL CO-OPERATION

25th/26th November 1959

1. Adoption of agenda (Document AC 1/59).

2. Review of co-operative activities since the Tenth General Conference (Document AC 2/59), including:

   - Second Session of the Standing Committee on Agricultural Co-operation (Appendix A)

   - Specialized Seminar on Co-operative Marketing of Eggs and Poultry in Europe (Appendix B)

   - Study Tour for Co-operative Employees (Appendix C)

3. Discussion and approval of a policy statement on agricultural co-operation for submission to the Eleventh General Conference of IFAP (Document AC 3/59) with particular reference to the following subjects:

   - agricultural co-operatives and the trend towards integrated and contractual relationships between producers, processors, and trade

   - the rôle of agricultural co-operation in developing economies

   - agricultural co-operatives' contribution to the adjustment of supply to demand

4. Discussion and approval of IFAP's co-operative program for the period up to the Twelfth General Conference.

5. Any other business.

6. Adoption of Committee's report (Document AC 4/59).

Document AC 2/59
September 1959
Original: English

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ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

IFAP'S CO-OPERATIVE ACTIVITIES SINCE THE TENTH GENERAL CONFERENCE

(Prepared by the Secretariat)

(Reference: Item 2 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. In accordance with the desire expressed at the Tenth General Conference for fuller documentation on the main co-operative events to be made available at the General Conferences, the complete reports on the following items appear as appendices to this document:

- Second Session of the Standing Committee on Agricultural Co-operation (Appendix A)
- Specialized Seminar on Co-operative Marketing of Eggs and Poultry in Europe (Appendix B)
- Study Tour for Co-operative Employees (Appendix C)

2. The Executive Committee has continued to give prominence to co-operative questions and has sought in particular to achieve a fuller integration of the discussions of the Standing Committee on Agricultural Co-operation with those of the Policy Committee at the General Conferences. The arrangements adopted for the Eleventh General Conference are expected to satisfy this requirement to a greater extent than before. The Chairman of the Standing Committee on Agricultural Co-operation attended both sessions of the Executive Committee held since the Tenth General Conference (Brussels, 13th October 1958, and Copenhagen, 28th/29th May 1959).

3. Consultations are at present taking place (September 1959) which it is hoped will lead to a meeting of representatives of FAO, ILO, IFAP, ICA, and CEA to discuss their current and planned activities in the field of co-operation, and to co-ordinate them wherever desirable. There are prospects that this meeting will be held before the Eleventh General Conference. It is also hoped that representatives of ICA and IFAP will have the opportunity of a personal exchange of views in preparation for the above-mentioned meeting.

4. So far the response by member organizations to the request for information and comments to help in the preparation of guides for students from the developing countries and those responsible for directing their studies in the advanced countries has been disappointing and insufficient to enable a start to be made. A reminder is being sent to member organizations.

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5. FAO has invited IFAP to take an active part in the preparation and running of a seminar designed to give guidance to the present and prospective leaders of farm organizations from a number of countries in Africa and the Near and Middle East. Though primarily concerned with general farm organizations, the seminar will also include some material on agricultural co-operatives. The Seminar, sponsored by FAO and the Danish Government, will probably be held in Denmark in July 1960. The Co-operation Officer took part in the work of a planning committee for the Seminar that met in Copenhagen in January 1959.

6. Regular consultations have been held with the Co-operation and Rural Welfare services of FAO. The Co-operation Officer took part in the annual meeting of the Selection Committee that advises UNESCO on the award of travel grants under its European Workers' Educational Travel Program.

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Appendix B to
Document AC 2/59
August 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

REPORT ON THE SPECIALIZED SEMINAR ON
CO-OPERATIVE MARKETING OF EGGS AND POULTRY IN EUROPE
Dublin, 9th/13th June 1959

(Prepared by the Secretariat)

(Reference: Item 2 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. At the invitation of the National Farmers' Association, IFAP member organization for Ireland, the Seminar was held in Dublin (at NFA Headquarters) from 9th to 13th June 1959.

2. A list of delegates and observers, and the program of the Seminar, are attached.

3. The following paragraphs attempt, in summary form, a description of the supply and demand situation for eggs and poultry in Europe and the rôle of farmer co-operatives in this branch of agriculture. These comments are based on the lectures and exchanges of views at the Seminar, the purpose of which was purely informational.

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4. In Western Europe there has been an over-all increase in egg production in recent years compared with pre-war. Ireland is the only country in Europe showing a reduction compared with pre-war. Production in Eastern European countries is increasing. European trade in eggs (comprising about one-tenth of production outside the U.S.S.R.) is essentially intra-European and a relatively small number of countries now dominate the market either as importers (Western Germany and Italy) or as exporters (Netherlands, Denmark, and Belgium). Imports have been growing to meet increasing consumption, except in the United Kingdom, which was the largest single importer of eggs in pre-war years but is now, under the stimulus of support prices, able to meet virtually all its requirements from home production. Today, the export trade depends essentially on Western Germany (accounting for some 50% of world trade in eggs) which takes about 80% of Dutch and Danish exports. Dutch exports have increased threefold over the 1934-38 volume while Danish exports have remained at about pre-war levels. Belgian exports have increased in recent years. Irish exports are now negligible compared with pre-war and early post-war years, due to the loss of the traditional Irish export market in the United Kingdom. Eastern European countries, mainly Poland, are also now competing with West European exporters and this development is likely to continue.

5. Producers in egg importing countries receive prices considerably above producer prices in exporting countries and variations in egg prices in recent years have been less marked in importing countries (because of government support) than in exporting countries. Producers for export may expect to find growing competition

for narrowing export market outlets and this, coupled with growing competition from producers in importing countries, may depress prices in the years ahead. Larger supplies will probably only be sold at narrowing profit margins or even at a loss.

6. Despite the limited export outlets for eggs in Europe, there are good possibilities of increasing consumption of poultry and eggs. Recent studies show that there is generally considerable elasticity of demand for eggs. It is considered that consumption levels in both richer and poorer European countries could be raised (although saturation point may have been reached in the U.S.A. at about 20 to 24 kg. per head per year). European egg producers should, however, aim at a reduction of seasonal variation in egg production (an objective which has already been largely achieved in the Netherlands and Denmark) and a reduction of unit costs of production to take advantage of this potential demand. It is in the egg producers' interest to provide a continuous supply at reasonable prices in order to maintain consumption habits. Higher average annual prices would follow. Poultry production by its nature can be highly cyclical and the history of the industry illustrates the desirability of avoiding as far as possible seasonal and cyclical movements in production and prices. Larger supplies will probably only be sold at lower unit prices and it must be expected that the relation between the price of feed and the price of eggs or poultry meat will deteriorate, as experience in the U.S.A. and the United Kingdom shows. More specialization and a close study of feeding methods and conversion rates will be necessary. Research on the development of laying birds to produce eggs in the present scarcity periods should be encouraged. It would also be of value if an international information service for poultry prices and production forecasts were established as an aid in the effort to create more even supplies and steadier prices.

7. The importance of a rapid movement of a fresh product of high quality to the consumer, attractive packaging, and good merchandising hardly needs to be stressed. Producers must be willing to devote resources to promoting these objectives, developing consumer education, and encouraging greater variety in the ways of using eggs.

8. There is a diversity of practice in the code-marking of eggs and in the measures taken in order to ensure that the consumer receives fresh eggs of good quality. It is difficult to obtain agreement on the most desirable code-marking system. The problem is an important one as the objectives of the code-marking system are to eliminate market speculation in eggs and to guarantee quality and freshness to the consumer. The failure of the code-mark to fulfil the latter aim has in some instances brought it into disrepute among consumers who are prepared to pay a premium for unmarked eggs. The introduction of an agreed European code of marking would not in itself be a solution as the problem involves the whole process of production, collection, transport, and distribution. Even the human factors of judgment and efficiency in quality-testing form part of the problem.

9. There has recently been a considerable expansion of broiler production in Europe and the upward trend is continuing but the future of this industry depends essentially on the price of poultry meat relative to that of other meats. Experience in North America illustrates this. As long as prices of poultry meat are above those of other meats, demand is confined largely to the higher income groups. More efficient production of broilers has led to reduction of prices and to increased consumption of poultry meat which is now becoming a staple food instead of a luxury in Europe (as is already the case in the U.S.A.). The broiler industry cannot develop as a by-product of egg production. Although it is expected that there will be a steady demand for eviscerated, pre-wrapped, ready-to-cook

birds, fears are expressed in some quarters that the production capacity of the industry may outrun demand. In the long run the problem of surplus supplies of poultry meat, as well as of eggs, may have to be considered in a wider context than Europe and North America.

10. In the last ten years there has been a tendency towards larger specialized producing units, and a consequent decline in the rôle of poultry as an important secondary source of income for the small farmer. Poultry keeping is now passing from the hands of the farmer's wife and becoming a specialized activity demanding business skill and the adoption of the most modern production methods, akin in some respects to industrial practice. Economic calculations predominate. The position is likely to be further aggravated by increased output resulting from an effort to maintain income levels in periods of keen competition.

11. Contract farming is already dominant in the poultry industry in North America and is now developing in Europe. Indeed, broiler production is the outstanding recent development in contract farming and it is estimated that in North America about 80% of all types of broilers are produced under some form of contract between producers, feed manufacturers, processors, and distributors. The rapid expansion of the broiler industry is in fact attributed to contract farming which has been meeting the demand from the supermarkets and chain foodstores in North America. This development raises many questions: how far is the integration of agriculture and business desirable and what will be the results? What effect will it have on the scale of farming and size and number of farms? Will it take the form of outright ownership or will co-operative arrangements predominate? Questions such as these, with their economic and social implications, require careful study by agricultural producers and by national and international organizations.

12. This, then, is the context in which farmer co-operatives have to serve their members. In the egg and poultry sector the achievements of co-operatives in Europe vary widely. In some countries they handle a substantial proportion of total supplies, elsewhere they are not as yet able to influence the market strongly. The advantages of co-operative organization in this sector have been proved by the foremost egg-exporting countries. It is beyond doubt that producers can face the rapid technological and economic changes taking place today with greater confidence if united in their own co-operatives.

13. Recent developments such as those mentioned in paras. 10 and 11 above, and technological advances in general, have placed the small producer in a particularly unfavourable position. Unable, for lack of capital or technical know-how, to use the most efficient production methods, he finds that his costs remain high in relation to generally declining prices received for his output of eggs and poultry. Frequently he is unable to meet the demands of wholesalers for high and uniform quality. Farmer co-operatives can do much to remedy this situation, principally by making available sound technical advice and, in certain cases, credit and thus enabling the small producer to achieve better quality at lower cost. They cannot, of course, by themselves obviate the danger of a general surplus of certain items, for instance broilers, resulting mainly from the creation of highly specialized, industrial production units and the extension of contract farming.

14. Farmer co-operatives may even favour the small producer to some extent, for instance by applying uniform collection fees which do not correspond with actual unit costs involved in collecting small and large consignments. Limits to this and similar measures vary from one co-operative to another. At some point or other, however, there is always a danger that larger producers will find private buyers willing to give them more advantageous terms than the co-operative does.

If such a tendency were not checked, the co-operatives would find themselves with an active membership of predominantly small-scale producers, with consequent higher running costs and weakened competitive position. Here no precise general rule can be laid down. Much depends on the degree of cohesion within each co-operative.

15. An important function of farmer co-operatives is to eliminate speculation, which develops easily in the private egg trade. Although opinions are divided about the efficacity of code-marking (see para. 8), it does appear to have gone far to prevent speculation in countries where it has been adopted. The farmer co-operatives have pioneered the introduction of compulsory marking, in order to eliminate manoeuvres by wholesalers and retailers that are prejudicial to both producer and consumer. This is but one aspect of the constant efforts made by farmer co-operatives to improve the efficiency of the whole marketing process, not only by getting rid of the completely negative practices but also by performing the necessary marketing and distribution services at the lowest possible cost. Indeed the functions of a national co-operative system go still further. They include, or should include, the switching of supplies to the most profitable markets (including foreign markets, where applicable) and to the most appropriate uses, and storage at times of over-abundance. It is hard to overestimate the value of this action to the individual farmer who, even if not a member of a co-operative, often benefits indirectly from the general improvement in market conditions thus achieved.

16. The Seminar did not attempt to discuss, in the short time available, all the implications of contract farming and the attitude of farmer co-operatives with regard to it. (This question is on the agenda of IFAP's Eleventh General Conference taking place in New Delhi, November/December 1959). It was agreed that this development is of the utmost importance for farmers and must be studied very closely by co-operatives before they define their policy.

17. No matter what new forms of organization may develop in the poultry industry, the producer must ensure that his commodities are of prime quality and as fresh as possible at the time of sale. Such factors as continuity of supply, freshness, quality, cleanliness, good merchandising, and also in the case of eggs, colour of yolks and the condition of albumen, will affect sales and consumption habits. In every country it is important that research into all aspects of the poultry industry should be developed and the results made available to the producer, who must use them to make his enterprise efficient. He must also be prepared to change, for instance from egg to poultry meat production, where market conditions dictate that a change should be made. Efforts must also be made, by producers themselves and by governments, to create a healthier international trading situation, taking into account, in particular, the present difficulties of countries that rely mainly on agricultural export earnings for their economic and social development. For all these purposes, co-operative organization is one of the most effective tools at the disposal of farmers.

18. A number of suggestions were put forward by delegates and received general support.

(a) Statistics on production, marketing, and consumption of eggs should mention numbers as well as weight. Metric measures should be used to facilitate international comparison.

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(b) Short bulletins on the national situation of supply and demand and market outlook for eggs and poultry should be provided by members and circulated regularly (perhaps quarterly) through IFAP among countries wishing to take part in such an exchange of information.

(c) Egg and poultry marketing co-operatives can learn from one another in the field of management techniques and operating costs. National organizations may wish to make such information available for circulation within IFAP's membership.

(d) The Canadian delegate urged IFAP and its members to consider the possibility of holding a similar seminar in Canada.

19. At the end of the Seminar participants put on record their unanimous appreciation of the warm hospitality extended by the National Farmers' Association and its capable handling of the arrangements in Dublin. The Seminar also acknowledged the courtesies shown by the Minister of Agriculture, who gave a reception in honour of participants and made available two officials of his Department as rapporteurs, and by the Irish Agricultural Organisation Society, whose General Secretary lectured at the Seminar and collaborated with NFA in preparing the program.

SEMINAIRE INTERNATIONAL SUR LA COOPERATION AGRICOLE
INTERNATIONAL SEMINAR ON AGRICULTURAL CO-OPERATION

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LIST OF PARTICIPANTS

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IFAP SEMINAR ON CO-OPERATIVE MARKETING OF EGGS AND POULTRY

Dublin, 9th-13th June 1959

PROGRAM

Monday 8th June

Delegates assemble in Dublin

Tuesday 9th June

Opening of Seminar by Dr. Juan N. Greene, President, National Farmers' Association, and Dr. Henry Kennedy, General Secretary, Irish Agricultural Organisation Society

"Trends in supply and demand in Europe of eggs and poultry"
Lecturer: H. Jacoby, ECE/FAO, Geneva

"Advertising and consumer education"
Lecturer: E.L. Pattison, National Farmers' Union London

Excursion to places of interest in the Dublin area.

Agricultural film show at NFA House.

Wednesday 10th June

"Agricultural Research in Ireland"
Lecturer: Dr. T. Walsh, Director, Agricultural Research Institute

"Co-operative advisory work"
Lecturer: E. Harreschou, Dansk Andels Aegexport, Copenhagen

"Agricultural Co-operation in Ireland"
Lecturer: Dr. H. Kennedy, General Secretary, I.A.O.S.

"Poultry Production in Ireland"
Lecturer: Dr. L.P.F. Smith, Economic Adviser, N.F.A.

Thursday 11th June

All-day excursion, visiting farms and poultry and egg producing centres.

Dinner given by the National Farmers' Association at the Shelbourne Hotel.

Friday 12th June

"Current developments in egg and poultry marketing in North America"
Lecturer: Hamish MacLeod, United Cooperatives of Ontario, Toronto, Canada

"Collection of produce and payment of members"
Lecturer: J. Le Bihan, Institut National Agronomique, Paris

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Friday 12th June (cont'd)	"Control of seasonal variations in production" Lecturer: P.G. Janson, Svenska Agghandelsförbundet, Stockholm
	Reception given by the Minister of Agriculture in Iveagh House, St. Stephen's Green.
Saturday 13th June	Summing up by rapportcur, Dr. H.G. Foster, and discussion.

IFAP

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Appendix C
to
Document AC 2/59

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

REPORT ON EIGHTH STUDY TOUR FOR
CO-OPERATIVE EMPLOYEES
England, 9th/19th June 1959

(Prepared by the Secretariat)

(Reference: Item 2 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. The eighth in the series of annual study tours for co-operative employees, organized by IFAP since 1952, visited England from 9th to 19th June 1959.

2. The group consisted of 22 employees from Belgium, Canada, Finland, Italy, Netherlands, Norway, Sweden, and Yugoslavia. A list of participants and the detailed itinerary of the tour are attached.

3. Travel to and from London for the European participants was covered by a grant from UNESCO under its European Workers' Educational Travel Program. UNESCO's continuing support of the tours is keenly appreciated both by IFAP and by the individual participants who benefit from it.

4. The host organization was the National Farmers' Union of England and Wales, IFAP member, in close association with the Agricultural Central Co-operative Association. To these two organizations IFAP expresses its thanks for the excellent handling of all arrangements and for the hospitality extended by them and by their affiliates. The Secretary of the Agricultural Central Co-operative Association accompanied the tour throughout. The Horace Plunkett Foundation kindly made available a member of its staff to serve as interpreter.

5. This report does not set out to make an analysis of agricultural co-operation in England nor to describe the structure and activities of each co-operative visited. It simply tries to define (as in reports from previous IFAP study tours) the characteristic features of agricultural co-operation in England today and to suggest some reasons to account for the direction in which the movement has developed.

6. One of the first facts to be noted is that only 5 per cent of the working population is engaged in agriculture. This is probably the lowest figure to be found in any country. Britain has long been the biggest import market for farm products and remains so in spite of an increase in domestic agricultural production of 60 per cent compared with pre-war. This increase means that the British farmer now supplies about one-half of the country's food requirements. As in most other countries, the agricultural producer receives a measure of government support, the system generally used being that of deficiency payments. Under this system the farmer sells his produce on the open market in competition with imported food, and

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the government bridges the gap between the average market price and a standard price (previously determined at annual price reviews). The current support measures have resulted in a more satisfactory level of income than before the war, when farmers may well have felt that their situation was so insecure that their own efforts, through co-operatives and otherwise, could not alone bring about a substantial improvement.

7. Whatever the reason, this period did not see any spectacular development in agricultural co-operation. On the other hand, since the end of the war, with the Agricultural Act of 1947 recognizing the place of farming in the economy and giving farmers some assurance for the future, there has been a remarkable expansion of co-operative activities, both within the existing societies and through the creation of new ones. The establishment of a central body for the agricultural co-operative movement, a crying need ever since the winding up of the English Agricultural Organisation Society in 1924, was realized after the Second World War. No doubt the climate of greater understanding for the problems of farming and its importance in the national economy, noticeable in the past fifteen or twenty years, has something to do with these co-operative achievements.

8. Another feature of British agriculture, closely tied up with the conditions described, is the Marketing Board. One of the most important measures taken by government in response to the desperate plight of farmers in the early thirties was to pass legislation governing the setting up of Marketing Boards for agricultural products. This legislation, and the use made of it, constitute in themselves a big field of study. Here it must suffice to mention merely the bare essentials of a marketing board. According to procedure laid down in the relevant laws, a marketing board is established if 66 per cent, by number and by area farmed, of all producers of the commodity in question vote in favour. Once voted into existence a marketing board exercises its powers over all producers of the commodity. These powers, enforceable by law, vary considerably from one board to another but may include price-fixing at all stages, control of marketing and supplies, setting of grades, etc. The directors of the marketing boards are partly elected farmer representatives and partly government nominees. Marketing boards are subject to the supervision of the Minister of Agriculture and may be terminated by him if he considers they are not acting in the public interest.

9. The most important marketing boards in existence today are those for Milk (1933) and Eggs (1957). Others have been formed for hops, tomatoes, potatoes, and wool.

10. The existence of certain marketing boards since 1933, and the possibility of forming new ones, have certainly influenced the development of co-operatives, perhaps mainly in a negative way. The Milk Marketing Board, for instance, with its very wide powers, leaves only a limited field of utility to co-operative organization and in England (though not in the other countries of the U.K.) there is only an insignificant number of co-operative dairies. The Egg Marketing Board, on the other hand, was created only recently and took over a situation in which a substantial part of the trade in eggs is handled by co-operative egg packing stations. These now work, together with the private trade, under the authority of the Egg Marketing Board. A marketing board is not incompatible with the existence of co-operatives, but it tends to take over what might otherwise be co-operative functions on the national market, leaving the co-operative with only a local or regional job to perform. It is not in a short report of this kind that the relative merits of marketing boards and co-operatives, and of systems combining the two, can be adequately discussed. In any case it should be mentioned that there are certain sectors, particularly horticulture, where marketing boards are not considered appropriate, and where there is much scope for further co-operative development.

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11. The factors already mentioned probably go far to account for the marked predominance of supply co-operatives, both in number and in turnover. A supply society can start in a very modest way, buying a few tons of fertilizer in bulk for distribution to its members, perhaps even without paid staff or premises of its own. The risk is correspondingly small. A marketing society, on the other hand, often has to work right from the start on a bigger scale, with consequently greater capital requirements and greater risks. Whatever the reasons, the largest farmer co-operatives in England today are almost without exception societies whose primary function is to supply farming requisites of all kinds. It is interesting to note that these supply co-operatives purchase a substantial part of their requirements from the Co-operative Wholesale Society, as there does not exist any central supply organization of the agricultural co-operative movement. Another significant point is that many developments in the marketing field have been undertaken by the supply co-operatives, which have the capital resources and business experience.

12. There are some other features of interest that can be attributed, in part at least, to the fact that the Agricultural Central Co-operative Association is of only recent formation and that up till then development had taken place piecemeal and without any central direction. One is the virtual absence of co-operative sources of credit, either for the individual farmer or for co-operatives themselves. Some attempts have been made in recent years, by the N.F.U. in collaboration with A.C.C.A., to remedy this situation in certain fields; mention can be made for instance, of the Agricultural Finance Federation Ltd. (with which the Co-operative Wholesale Society is also associated) which finances hire purchase for farmers through their co-operatives. It will probably remain true, however, for some time to come that farmers and their co-operatives have to rely mainly on the commercial banks for their credit requirements. The immediate efforts of the N.F.U. and A.C.C.A. in this field are directed towards enabling farmers and their co-operatives to obtain this credit on more favourable terms. Another noteworthy feature is that competition can and does take place between co-operatives, there being no allocation of markets and areas of activity by a central co-operative authority. Co-operatives are seen as introducing an essential element of competition into the market, primarily of course with the private trade, and it is not thought possible to limit this competition even as between co-operatives.

13. From this rapid glance at some of the factors governing agricultural co-operation in Britain, it is clear that this latter is not the systematic construction to be found in countries like Denmark, Sweden, or the Netherlands. It has developed, until very recently, without central planning - which is not altogether a criticism, since spontaneous growth, even if random, can be very durable. In the field of supply, farm co-operatives are strong and have some possibilities still unexploited at national level for improving their position further. The share of co-operatives in the marketing of farm products, on the other hand, is modest except for eggs (33 per cent) and wool (18 per cent), and - for various reasons including the possibilities offered by marketing boards - will probably never reach the level of, for instance, the Scandinavian countries. Co-operative credit is on a very small scale. There has, however, been a considerable development in recent years of new co-operative services - manufacture and supply of packing materials through a federal society, provision of finance on favourable terms for small farm machinery syndicates, creation of forest owners' co-operatives and no doubt many others. Further progress in farmer organization is likely to be rapid, both because much remains to be done and because farmers have three distinct lines of action - the National Farmers' Union, the Agricultural Central Co-operative Association, and the Marketing Boards, existing or to be created - which together enable them to face present and future problems with confidence.

UNESCO/IFAP STUDY TOUR FOR CO-OPERATIVE EMPLOYEES

TOURNEE D'ETUDE UNESCO/FIPA POUR EMPLOYES DE COOPERATIVES

England 9th-19th June 1959
Angleterre 9-19 juin 1959

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TOUR LEADERS

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Agriculture House,
Knightsbridge,
London S.W.1

R. Hewlett — International Federation of Agricultural Producers,
Via Yser 14
Roma (15th-19th June)

INTERPRETER

P.G. Gorst — Horace Plunkett Foundation
10 Doughty Street,
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UNESCO/IFAP STUDY TOUR FOR CO-OPERATIVE EMPLOYEES
ENGLAND, 9TH/19TH JUNE 1959

Program

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Thursday, 18th June	Leave for Lyndhurst (Hampshire) Visit Hampshire Cattle Breeders Society Ltd. (Artificial Insemination Centre) Visit to a Farmers Machinery Syndicate at Farringdon (Hampshire) Depart by coach to London for final dinner at Agriculture House
Friday, 19th June	Participants disperse

IFAP

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Appendix C
to
Document AC 2/59

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

REPORT ON EIGHTH STUDY TOUR FOR CO-OPERATIVE EMPLOYEES
England, 9th/19th June 1959

(Prepared by the Secretariat)

(Reference: Item 2 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. The eighth in the series of annual study tours for co-operative employees, organized by IFAP since 1952, visited England from 9th to 19th June 1959.

2. The group consisted of 22 employees from Belgium, Canada, Finland, Italy, Netherlands, Norway, Sweden, and Yugoslavia. A list of participants and the detailed itinerary of the tour are attached.

3. Travel to and from London for the European participants was covered by a grant from UNESCO under its European Workers' Educational Travel Program. UNESCO's continuing support of the tours is keenly appreciated both by IFAP and by the individual participants who benefit from it.

4. The host organization was the National Farmers' Union of England and Wales, IFAP member, in close association with the Agricultural Central Co-operative Association. To these two organizations IFAP expresses its thanks for the excellent handling of all arrangements and for the hospitality extended by them and by their affiliates. The Secretary of the Agricultural Central Co-operative Association accompanied the tour throughout. The Horace Plunkett Foundation kindly made available a member of its staff to serve as interpreter.

5. This report does not set out to make an analysis of agricultural co-operation in England nor to describe the structure and activities of each co-operative visited. It simply tries to define (as in reports from previous IFAP study tours) the characteristic features of agricultural co-operation in England today and to suggest some reasons to account for the direction in which the movement has developed.

6. One of the first facts to be noted is that only 5 per cent of the working population is engaged in agriculture. This is probably the lowest figure to be found in any country. Britain has long been the biggest import market for farm products and remains so in spite of an increase in domestic agricultural production of 60 per cent compared with pre-war. This increase means that the British farmer now supplies about one-half of the country's food requirements. As in most other countries, the agricultural producer receives a measure of government support, the system generally used being that of deficiency payments. Under this system the farmer sells his produce on the open market in competition with imported food, and

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the government bridges the gap between the average market price and a standard price (previously determined at annual price reviews). The current support measures have resulted in a more satisfactory level of income than before the war, when farmers may well have felt that their situation was so insecure that their own efforts, through co-operatives and otherwise, could not alone bring about a substantial improvement.

7. Whatever the reason, this period did not see any spectacular development in agricultural co-operation. On the other hand, since the end of the war, with the Agricultural Act of 1947 recognizing the place of farming in the economy and giving farmers some assurance for the future, there has been a remarkable expansion of co-operative activities, both within the existing societies and through the creation of new ones. The establishment of a central body for the agricultural co-operative movement, a crying need ever since the winding up of the English Agricultural Organisation Society in 1924, was realized after the Second World War. No doubt the climate of greater understanding for the problems of farming and its importance in the national economy, noticeable in the past fifteen or twenty years, has something to do with these co-operative achievements.

8. Another feature of British agriculture, closely tied up with the conditions described, is the Marketing Board. One of the most important measures taken by government in response to the desperate plight of farmers in the early thirties was to pass legislation governing the setting up of Marketing Boards for agricultural products. This legislation, and the use made of it, constitute in themselves a big field of study. Here it must suffice to mention merely the bare essentials of a marketing board. According to procedure laid down in the relevant laws, a marketing board is established if 66 per cent, by number and by area farmed, of all producers of the commodity in question vote in favour. Once voted into existence a marketing board exercises its powers over all producers of the commodity. These powers, enforceable by law, vary considerably from one board to another but may include price-fixing at all stages, control of marketing and supplies, setting of grades, etc. The directors of the marketing boards are partly elected farmer representatives and partly government nominees. Marketing boards are subject to the supervision of the Minister of Agriculture and may be terminated by him if he considers they are not acting in the public interest.

9. The most important marketing boards in existence today are those for Milk (1933) and Eggs (1957). Others have been formed for hops, tomatoes, potatoes, and wool.

10. The existence of certain marketing boards since 1933, and the possibility of forming new ones, have certainly influenced the development of co-operatives, perhaps mainly in a negative way. The Milk Marketing Board, for instance, with its very wide powers, leaves only a limited field of utility to co-operative organization and in England (though not in the other countries of the U.K.) there is only an insignificant number of co-operative dairies. The Egg Marketing Board, on the other hand, was created only recently and took over a situation in which a substantial part of the trade in eggs is handled by co-operative egg packing stations. These now work, together with the private trade, under the authority of the Egg Marketing Board. A marketing board is not incompatible with the existence of co-operatives, but it tends to take over what might otherwise be co-operative functions on the national market, leaving the co-operative with only a local or regional job to perform. It is not in a short report of this kind that the relative merits of marketing boards and co-operatives, and of systems combining the two, can be adequately discussed. In any case it should be mentioned that there are certain sectors, particularly horticulture, where marketing boards are not considered appropriate, and where there is much scope for further co-operative development.

11. The factors already mentioned probably go far to account for the marked predominance of supply co-operatives, both in number and in turnover. A supply society can start in a very modest way, buying a few tons of fertilizer in bulk for distribution to its members, perhaps even without paid staff or premises of its own. The risk is correspondingly small. A marketing society, on the other hand, often has to work right from the start on a bigger scale, with consequently greater capital requirements and greater risks. Whatever the reasons, the largest farmer co-operatives in England today are almost without exception societies whose primary function is to supply farming requisites of all kinds. It is interesting to note that these supply co-operatives purchase a substantial part of their requirements from the Co-operative Wholesale Society, as there does not exist any central supply organization of the agricultural co-operative movement. Another significant point is that many developments in the marketing field have been undertaken by the supply co-operatives, which have the capital resources and business experience.

12. There are some other features of interest that can be attributed, in part at least, to the fact that the Agricultural Central Co-operative Association is of only recent formation and that up till then development had taken place piecemeal and without any central direction. One is the virtual absence of co-operative sources of credit, either for the individual farmer or for co-operatives themselves. Some attempts have been made in recent years, by the N.F.U. in collaboration with A.C.C.A., to remedy this situation in certain fields; mention can be made for instance, of the Agricultural Finance Federation Ltd. (with which the Co-operative Wholesale Society is also associated) which finances hire purchase for farmers through their co-operatives. It will probably remain true, however, for some time to come that farmers and their co-operatives have to rely mainly on the commercial banks for their credit requirements. The immediate efforts of the N.F.U. and A.C.C.A. in this field are directed towards enabling farmers and their co-operatives to obtain this credit on more favourable terms. Another noteworthy feature is that competition can and does take place between co-operatives, there being no allocation of markets and areas of activity by a central co-operative authority. Co-operatives are seen as introducing an essential element of competition into the market, primarily of course with the private trade, and it is not thought possible to limit this competition even as between co-operatives.

13. From this rapid glance at some of the factors governing agricultural co-operation in Britain, it is clear that this latter is not the systematic construction to be found in countries like Denmark, Sweden, or the Netherlands. It has developed, until very recently, without central planning - which is not altogether a criticism, since spontaneous growth, even if random, can be very durable. In the field of supply, farm co-operatives are strong and have some possibilities still unexploited at national level for improving their position further. The share of co-operatives in the marketing of farm products, on the other hand, is modest except for eggs (33 per cent) and wool (18 per cent), and - for various reasons including the possibilities offered by marketing boards - will probably never reach the level of, for instance, the Scandinavian countries. Co-operative credit is on a very small scale. There has, however, been a considerable development in recent years of new co-operative services - manufacture and supply of packing materials through a federal society, provision of finance on favourable terms for small farm machinery syndicates, creation of forest owners' co-operatives and no doubt many others. Further progress in farmer organization is likely to be rapid, both because much remains to be done and because farmers have three distinct lines of action - the National Farmers' Union, the Agricultural Central Co-operative Association, and the Marketing Boards, existing or to be created - which together enable them to face present and future problems with confidence.

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UNESCO/IFAP STUDY TOUR FOR CO-OPERATIVE EMPLOYEES

TOURNEE D'ETUDE UNESCO/FIPA POUR EMPLOYES DE COOPERATIVES

England 9th-19th June 1959
Angleterre 9-19 juin 1959

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Document AC 3/59
August 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

AGRICULTURAL CO-OPERATION AND IFAP'S GENERAL POLICIES

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

F O R E W O R D

1. IFAP's Executive Committee decided at its May 1959 Session to try a new method of associating the Standing Committee on Agricultural Co-operation more closely with the formulation of IFAP's general policies.

2. Delegates from farm co-operative organizations participate in IFAP's meetings in a dual capacity: as representatives of the farming community and as officers of co-operative organizations. Most problems discussed in IFAP interest them from these two points of view. It was felt that if an opportunity were given to these delegates to discuss the main items on the agenda of a General Conference as co-operators before they joined with their colleagues of the general farm organizations in the policy discussions, this would help to give co-operative viewpoints their due influence in shaping IFAP resolutions. Once the policy discussions have started delegates from co-operative organizations will of course be able to participate fully in them.

3. The procedure to be followed is that the Standing Committee on Agricultural Co-operation will, after discussion, produce a statement giving its views on the main policy issues to be considered by the Conference. This year three broad problems have been selected: vertical integration and contract farming; agricultural evolution in developing countries; and the producer's rôle in adjusting production to demand.

4. The present paper is in three sections, each dealing with one of these topics and includes as a general conclusion a first draft, prepared by the Secretariat, of what might, after discussion and amendment at New Delhi, become the Committee's statement referred to in paragraph 3 above.

5. These conclusions are placed before the Committee only as a starting point for its task of drafting. The Committee itself must formulate the recommendations to be submitted to the Conference which will, after discussion and amendment if so decided, incorporate them in its own report.

6. To ensure that full consideration is given to the Committee's views, its report will be formally presented to the Conference at an early stage of the proceedings.

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Section A
Document AC 3/59
August 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

AGRICULTURAL CO-OPERATIVES AND INTEGRATION (CONTRACT FARMING)

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. The term integration is frequently used to describe a dual phenomenon: the tendency towards larger economic units and towards unified management over wider areas of the economy. Such tendencies are visible in all sectors of a modern economy. Even in agriculture, where they are generally harder to carry through than in other sectors, many countries show a long-term trend towards the formation of larger, more closely linked producing and marketing units.

2. It is not the place here to discuss the multiple forms that these tendencies can take, the problems peculiar to each sector of economic activity, nor even the factors - including some purely economic ones - that limit the scope for integration in agriculture, for these are well-known to farmer representatives. The problems to be discussed here are those raised specifically by a certain form of integration known as "contract farming". One general remark may, however, be made. Integration is usually considered under the sub-headings "vertical" and "horizontal". Contract farming is a form of vertical integration, involving in its most complete form the whole chain of production, processing, and distribution for a given product. Co-operatives, on the other hand, come under the heading of "horizontal integration" as they unite a homogeneous category of persons - farmers at the production end of the chain, consumers at the distribution end, and many groups in between. But it is clear that farmer marketing co-operatives, for instance, realize a degree of vertical integration when they engage in collection of the crop from the farmer, in its processing and distribution to wholesalers or retailers, replacing a thousand individual transactions between farmers, collectors, processors, and distributors by a unified operation extending from production to distribution. Co-operatives are thus, beyond any doubt, a form of integration. It is a form that, we are convinced, has special virtues and it is necessary to examine how far these are compatible with other formulas of integration, such as contract farming.

3. Some kinds of contract farming have been known for many years, and have raised no serious problems. Growers of sugarbeet and of fruit and vegetables for canning usually contract with the sugar factory or the canneries for a certain acreage or perhaps a specified weight. There are obvious technical reasons for this. A cannery, for instance, must operate at something near full capacity, especially as its season is often short. In the absence of a contract with the producers, it is liable to find itself with insufficient volume in years when there is a ready and profitable sale of fruit (or vegetables) on the market for direct consumption. There is also the important consideration of securing high and uniform quality. At the same time the farmers usually welcome such contractual arrangements which,

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by specifying a certain price or price range, provide an element of stability in a market subject to violent fluctuations. These older forms of contract farming, while important in certain regions, seldom account for a significant portion of national agricultural production.

4. Contract farming of the kind that has aroused so much discussion is mostly practised in North America, where it has spread rapidly in the post-war years. The products mainly concerned are pigmeat, poultry meat and eggs, while some contract arrangements also exist for beef and dairy cattle. Appendix A to this document gives an indication of the extent of contract farming in these fields in the U.S.A. and Canada. Similar methods are beginning to be used in some European countries and are almost sure to be more widely adopted in the immediate future.

5. The main types of arrangements that are included under the general heading of contract farming vary a good deal in their degree of integration. In the milder forms the individual farmer remains the owner of land, livestock, and buildings, while contracting in advance with the integrator - usually a feed manufacturer, food processor, or chain store - to sell certain quantities (of broilers or hogs, for instance) at specified periods and for specified price premiums. The earlier practice of guaranteeing a specific price to the producer is rapidly disappearing in the face of rising production and falling market prices. The farmer usually undertakes to observe certain management practices and particularly the use of specified feeds manufactured or recommended by the integrating concern. In the more extreme forms the integrator provides the livestock and necessary buildings and equipment, lays down in detail the management practices to be followed and pays the farmer a fixed wage for his labour and the use of his land.

6. It is clear that arrangements of this kind go far to satisfy the economic and technical needs of the North American market. They make available to the relatively small producer - but not to the smallest, with whom the integrators generally refuse to contract - the latest findings of research on the feeding and management of poultry and hogs. They provide him (in the more completely integrated systems mentioned above) with the most suitable stock and equipment, or with the credit to obtain them. He is thus able to produce, at low unit cost, a regular supply of a highly standardized product, as demanded by the supermarkets and chain foodstores that are acquiring an increasingly dominant position on the North American food market.

7. Thus contract farming is in line with present-day economic trends. It can bring advantages to the consumer in the form of lower prices and more uniform quality, to the producer in the form of improved facilities and an (in the short term, at least) assured market, and to the integrator in the form of the ample profits to be realized from mass markets for his feeds on the one hand and for his pig and poultry meat on the other. But there are also drawbacks and dangers inherent in contract farming.

8. In a brief survey such as this it will not be possible to examine the detailed provisions of the contracts between integrators and farmers. These can vary widely, not only as between different integrators but also because nothing compels the individual integrator to offer the same conditions to all farmers. But whatever the terms of the contract it is clear that, in return for the technical assistance and an assured market, the farmer surrenders some part of his independence to an integrator whose interests do not necessarily coincide with farmers' and whose aim is to make as big profits as possible. This is true even for the less extreme kinds of contract; where the farmer supplies only land and works for a fixed wage,

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his whole status is changed. He ceases to be an entrepreneur. He becomes a wage-earner and one who, being tied to his land and owning no livestock, equipment, or farm buildings, finds it very difficult to go into any other employment and consequently sooner or later is left with little bargaining power.

9. Any considerable development of contract farming in its present forms seems therefore very likely to entail a serious limitation of competition for the farmer's services and product. Theoretically, of course, competition might continue between the integrators but given the scale of operations and the relatively small number of enterprises involved it would be surprising if some kind of zoning arrangement were not applied, enabling each integrator to enjoy a virtual monopoly in the area allotted to him. In this situation the terms of the contracts between integrators and farmers would no doubt become progressively more unfavourable for the latter, though with some compensation in the form of greater security and, possibly, government supervision of contracts.

10. These dangers are by no means far-distant eventualities. Even more immediate, however, is the problem of over-production. For broilers the problem already exists in the U.S.A. and Canada. In the past fifteen years there has been a 40-fold increase in broiler production in the U.S.A., for which the contract farming system is mainly responsible, and 95 per cent of broilers are produced under contract. The corresponding figure in Canada would be around 80 per cent. The price of broiler meat in Canada, which in the first half of 1958 was around 21-22 cents per pound liveweight to the grower, had sunk by the spring of 1959 to around 14-15 cents. This price is said to be below cost for the average small and medium non-integrated producer, and even some integrators have suffered losses. This explains their recent tendency to eliminate the price guarantees in contracts made with farmers, and to substitute bonuses for efficiency.

11. Even supposing that prices do not fall to the point where the integrated operators themselves cannot continue profitably, it remains that the average independent grower of broilers is already, and will be increasingly, faced with extremely serious difficulties. Not every farmer who wishes can obtain a contract. Integrators discriminate, and not every region is covered. The classical, text-book answer is that the inefficient - i.e. non-integrated - producer must get out. But today it is realized, even by governments and non-agricultural interests, that this process can only be allowed to act slowly and with precaution. A considerable extension of contract farming in a few branches of production, resulting in a steep fall in prices, could have consequences that, leaving aside the human, social, and political aspects of the problem, would not even have economic justification.

12. This, in necessarily over-simplified terms, is the situation faced by farmer organizations: in the U.S.A. and in Canada, widespread use of contract farming in livestock production, with varying degrees of saturation of the market, and elsewhere the beginnings of what may be a similar development. Farmer organizations cannot be indifferent, nor can they afford to remain for long without a defined policy. Their task - in which farmer co-operatives must play an important part - is to secure for farmers (and for consumers) the benefits of the most effective production methods while protecting them from possible abuses of the contract farming system and from a too rapid expansion of output.

13. It is not surprising that the attitude of farmer co-operatives in the two countries mainly concerned - U.S.A. and Canada - has so far been generally hesitant. Whether seen from a businessman's or a co-operator's viewpoint, much is at stake - enormous capital, and some basic principles of co-operation. It is not too much to say that the whole future of farmer co-operatives may depend on decisions taken in the face of the challenge of contract farming.

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14. Various lines of action are theoretically open to farmer organizations. They could confine themselves to checking the terms of contracts between integrator and farmer, pointing out any unfairnesses and seeking to get them remedied. They might go a step further and enter into collective bargaining with the integrators on behalf of their members. If willing to commit themselves more completely, they could by becoming contractors themselves or by engaging in other forms of action try, through generally improved efficiency, to outdo the feed manufacturers and chain foodstores.

15. A supervision of contracts would be a useful but limited measure. It has the advantage of being immediately applicable, since it involves neither basic principles nor big investments, and would probably save individual farmers from signing disadvantageous contracts. This supervision would be a matter primarily for general farm organizations. It would, however, leave the situation substantially unchanged. No amount of supervision by co-operatives would prevent a hardening in the contracts once the integrators were in a position to impose their terms.

16. Although collective bargaining (by general farm organizations, by farmer co-operatives, or by specially formed bodies) goes a good deal further than a mere check on contracts arrived at by each farmer individually, the same kind of criticism can reasonably be made. Collective bargaining can eliminate individual abuses and discriminations but its effectiveness in improving conditions of farmers as a whole, or for all those engaged in the particular branch of production concerned, depends upon the existence of a competitive alternative to contracting with the private integrator.

17. The real choice for co-operatives wishing to intervene decisively therefore lies between adopting contract farming and doing it better than the private integrators, or seeking other methods of matching the efficiency of these latter.

18. It can be noted, first of all, that there are many resemblances between the services and protection offered by contract farming on the one hand and by ordinary co-operative methods on the other. Many farmer co-operatives maintain technicians to advise members on such things as feeds, fertilizers, and livestock husbandry; many also engage in processing and distribution, sometimes even as far as the final consumer. Marketing co-operatives in many countries are under an obligation to accept all quantities of produce their members offer them for sale, not merely the specified amounts provided for under contract farming. In times of over-abundance many co-operatives will give their members an immediate advance (of perhaps 70 per cent or 80 per cent of the estimated sale price) and store the product until the market is stronger. These and similar services strengthen the position of the individual grower considerably. The co-operatives, it is true, cannot guarantee a certain level of returns to the producer. But recent experience in North America shows that private integrators cannot do so either for very long. In any case the advantages they offer can only be made available for a limited volume of production and, consequently, for a limited number of producers who, under the contract, accept corresponding obligations and restrictions on their freedom of action. With these restrictions co-operatives could grant similar terms. But a co-operative - which is essentially a non-discriminating association, open to anyone belonging to the category catered for - has to serve wider interests. It is conceivable that a co-operative in certain conditions - for instance, with limited territorial coverage, uniform farm structure, and control over retail outlets - could offer contracts to all its members, and to any other farmers in its area who might wish to become members. But in most cases, where an introduction of contracts would inevitably mean accepting some and rejecting others, the

dangers of disunity and splitting up would be considerable. Once the idea of discrimination is admitted it is hard to set any limits to it and the universal nature of co-operation would be fundamentally changed.

19. It therefore seems that many farmer co-operatives faced, or likely to be faced, with an extension of contract farming will tend to adopt forms of integration, other than contract farming, that will enable them to compete effectively with other businesses and to maintain, if not increase, the relative strength of the co-operative sector. Failing this, they would be left with the uneconomic producers who cannot obtain a contract with a private integrator, with serious consequences for their powers of competition and, indeed, their whole status.

20. The scope for co-operative integration, and the forms it may take, naturally vary from one country to another and from one branch of agricultural production to another. Recent examples from the U.S.A. and Canada are mentioned in Appendix A to this document. A far-reaching possibility that has not been much exploited so far concerns the integration that could be achieved between farmer co-operatives and consumer co-operatives. Where consumer co-operatives are fairly strong, this would provide assured outlets for large quantities of farm produce sold by the farmer co-operatives. Even within the agricultural co-operative movement there is room for greater co-ordination between its various branches, extending in some cases to a measure of integration.

21. The economics of contract farming are vitally affected by government policy. Where the product concerned enjoys some measure of price support, operations are simplified. The integrator knows in advance what his minimum takings will be, regardless of the state of the market. At the same time, however, the security given by price support may render contract arrangements less attractive to the farmer. Moreover, governments will be keeping a strict watch on volume of production in order to hold its expenditure on the support program within acceptable limits. A very significant development in this respect is a recent statement made by the Canadian Minister of Agriculture suggesting that the government will adopt the deficiency payment method to fulfil its obligations to support hog prices, and that "commercial organizations operating under the so-called vertical integration plan" will not be eligible to receive such payments.

22. The broiler industry, however, which is the classical example of contract farming, does not enjoy price support either in the U.S.A. or in Canada. If the integrating concerns can give contracting farmers technical advice, credit, an assured market, and premiums for efficiency that farmers find satisfactory and even attractive, the reason can be seen mainly in two facts. The first is the ability of a large integrated enterprise to offset losses on one activity against profits on another. For a feed manufacturer, for instance, the key to contract farming is that it ensures the sale of large quantities of his feeds. The profits realized on the feeds enable him to offer attractive terms to the broiler producers - if necessary, even to accept some losses on the marketing of the broilers. In a different situation, with the broiler market firm and feed prices falling, the game could be played the other way round. What counts is not the economics of each activity in isolation but final profit on the whole integrated operation.

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24. How are farmer co-operatives placed to take advantage of these two factors? The big multi-purpose co-operatives certainly have a sufficiently wide range of activities, but cannot exploit this strength with the same flexibility as a private company. While it is probably true that most multi-purpose co-operatives from time to time finance one activity with surpluses derived from another, there are often quite strict limits to such action. The co-operative's function being to render services to its members-customers at something close to cost, a multi-purpose co-operative is entitled to merge its funds only if all the members utilize all the services. Where a service is provided for a minority of members, it will usually have to be self-supporting, receiving no subsidy from general funds and retaining any surpluses that arise. Departures from this principle are, of course, not uncommon, and can be explained either by a highly developed sense of solidarity within the co-operative or by the ability of management to get its policies accepted or tolerated. Nevertheless, the room for manoeuvre in a co-operative is clearly much more limited than in a private company, where management is more autonomous and has as its essential duty to produce maximum profits for the shareholders from the concern's integrated fields of activity.

25. As for the retail outlets, farmer co-operatives are generally not yet in a strong position. Few of them possess their own stores selling to the public (and then usually on only a small scale). Information available to IFAP is too sketchy to permit any firm statement about the extent to which farmer co-operatives may have arrangements with retailers, consumer co-operatives, or institutions guaranteeing them a certain market for their products, but the indications are that only a small proportion of the total sales of farmer co-operatives is covered by such arrangements. In the face of the integration practised by private trade, exemplified by the relationship between feed manufacturers and chain foodstores in the U.S.A. mentioned above, farmer marketing co-operatives must look for ways of protecting the retail market for their products. In a number of countries, particularly in Europe, it might be possible to reach satisfactory arrangements with the consumer co-operative movement in the first place, and also with the private trade.

26. Finally, the problem of over-production touched on in paragraph 10 cannot be seen realistically in isolation from government agricultural policy and the chronic surplus situation for some staple farm products. Over-production of, for instance, broilers is in many ways a different problem from that of wheat and no doubt less intractable. The basic causes are, however, the same - amazing advances in production techniques, and a complex of government agricultural support policies affecting immediately the commodities concerned and beyond them farming and the national economies as a whole. It is not the task of this paper to attempt an analysis of these immensely complicated problems, beyond noting that farmers and their organizations alone cannot be expected to solve them.

CONCLUSIONS

The Committee, after full discussion of the present paper, and the problems it raises, may wish to draw to the attention of the General Conference the following points:

1. Contract farming - a form of the general phenomenon of integration which characterizes all sectors of a modern economy, including co-operatives - is widely applied in certain branches of agricultural production in North America, and may spread in other parts of the world in the near future.

2. Contract farming as operated in North America by private interests (feed manufacturers, food processors, chain stores, etc.) was first conceived to satisfy the needs of a mass consumer market with high purchasing power, by ensuring a regular and abundant supply of a standardized quality product. To those farmers who can obtain contracts with the integrators it offers various combinations of financial backing, technical guidance, and a certain measure of security in marketing their production.

3. There are, however, several dangers inherent in these methods. Perhaps the greatest is that of over-production. Contract farming not only facilitates the use of more efficient techniques; in the United States, for instance, it has implanted large-scale broiler production in areas which only a few years ago raised a negligible quantity of broilers. In Canada the price of broiler meat has sunk to a level at which even integrators have suffered severe losses.

4. If contract farming thus contains in itself a threat to the prosperity of the favoured contracting farmers, it has immediately worsened the situation of the small, non-integrated producer. Because of his geographic location or because of the small scale of his operation, such a producer is often unable to secure a contract even if he wishes to; and lack of capital and technical knowledge often prevents him from using the most efficient production methods. He thus tends to be priced out of the market - and out of his farm, in the worst cases.

5. As a further danger, the importance of which is varyingly estimated, it must be pointed out that some forms of contract farming transform the farmer from an independent entrepreneur into a wage worker. All forms of contract farming, as practised by private companies, increase the dependence of farmers on business interests that do not necessarily have much regard for the long-term welfare of the farming population.

6. Farmer co-operatives cannot afford to stand aloof from the problems raised by contract farming, even in those countries where it has not yet become a widespread phenomenon. They must be able to give advice and, where necessary, protection to their members. Where contract farming has taken hold, the very existence of some farmer co-operatives - for instance, those manufacturing and supplying feedingstuffs - may be threatened.

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7. Co-operatives can give a certain amount of fringe protection - for instance, by impressing on public authorities the danger of over-production, by placing the issues involved before their members in house journals or radio talks, or by scrutinizing proposed contracts before signature by the farmer (though this latter would more suitably be undertaken by a general farm organization). But if they wish to exercise a more decisive influence - as they should - the question that has to be answered is, should co-operatives themselves move into contract farming?

8. Farmer co-operatives in many cases provide their members with most of the services and advantages offered by the private integrator - technical advice, credit, an assured market. The supposed ability of the private integrator to give more than the co-operative in terms of security and high returns depends essentially on one thing - the integrator chooses his farmers and binds them by contract, while the co-operative is open to all farmers, has no control over their management practices, and often no effective control over their marketing. The integrator is there to make profits, and in so doing may also serve the interests of a number of selected farmers; the co-operative is there to serve all farmers provided the same type of control as that exercised by the private

9. It is clear, therefore, that for farmer co-operatives in many countries to practise contract farming as currently worked in North America by private integrators would involve a fundamental change in the concept of co-operation. It could no longer be considered as a unifying force.

10. Rather than embark on such a course - which, from the viewpoint of the economy as a whole, could have the disadvantage of encouraging over-production and a one-sided development of those branches of agriculture that are suited to contract farming - co-operatives should study as a matter of urgency the many other forms of integration that can enable them constantly to widen and improve their services to farmers. There are numerous possibilities: integration between the local, regional, and national echelons of a given branch of co-operation, integration between marketing, supply, and credit co-operatives at all levels, integration - or at least co-ordination - between the rural and the urban co-operative movements. This latter deserves particular attention, since agreements with consumer co-operatives would in certain cases give the farmer co-operatives the benefit of large, assured outlets for their products (one of the strengths of the contract farming system in North America as practised by or in conjunction with chain foodstores and supermarkets).

11. If these various possibilities are fully exploited - they naturally differ widely from one country to another - farmer co-operatives should be capable of maintaining and improving their position in relation to their private competitors. The necessary complement to this effort in the technical and organizational field is the provision of full and objective information to farmers, both members and non-members, and to the community as a whole. It must be stated emphatically that the farmer who contracts with a private integrator surrenders his freedom of choice - in the long run, perhaps his independence - to a profit-making concern where he has no voice. Whatever freedom the farmer surrenders to his co-operative, he surrenders to a democratically run organization that exists exclusively to serve his interests and those of his fellow farmers.

IFAP 39

Section A
Document AC 3/59
August 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

AGRICULTURAL CO-OPERATIVES AND INTEGRATION (CONTRACT FARMING)

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. The term integration is frequently used to describe a dual phenomenon: the tendency towards larger economic units and towards unified management over wider areas of the economy. Such tendencies are visible in all sectors of a modern economy. Even in agriculture, where they are generally harder to carry through than in other sectors, many countries show a long-term trend towards the formation of larger, more closely linked producing and marketing units.

2. It is not the place here to discuss the multiple forms that these tendencies can take, the problems peculiar to each sector of economic activity, nor even the factors - including some purely economic ones - that limit the scope for integration in agriculture, for these are well-known to farmer representatives. The problems to be discussed here are those raised specifically by a certain form of integration known as "contract farming". One general remark may, however, be made. Integration is usually considered under the sub-headings "vertical" and "horizontal". Contract farming is a form of vertical integration, involving in its most complete form the whole chain of production, processing, and distribution for a given product. Co-operatives, on the other hand, come under the heading of "horizontal integration" as they unite a homogeneous category of persons - farmers at the production end of the chain, consumers at the distribution end, and many groups in between. But it is clear that farmer marketing co-operatives, for instance, realize a degree of vertical integration when they engage in collection of the crop from the farmer, in its processing and distribution to wholesalers or retailers, replacing a thousand individual transactions between farmers, collectors, processors, and distributors by a unified operation extending from production to distribution. Co-operatives are thus, beyond any doubt, a form of integration. It is a form that, we are convinced, has special virtues and it is necessary to examine how far these are compatible with other formulas of integration, such as contract farming.

3. Some kinds of contract farming have been known for many years, and have raised no serious problems. Growers of sugarbeet and of fruit and vegetables for canning usually contract with the sugar factory or the canneries for a certain acreage or perhaps a specified weight. There are obvious technical reasons for this. A cannery, for instance, must operate at something near full capacity, especially as its season is often short. In the absence of a contract with the producers, it is liable to find itself with insufficient volume in years when there is a ready and profitable sale of fruit (or vegetables) on the market for direct consumption. There is also the important consideration of securing high and uniform quality. At the same time the farmers usually welcome such contractual arrangements which,

by specifying a certain price or price range, provide an element of stability in a market subject to violent fluctuations. These older forms of contract farming, while important in certain regions, seldom account for a significant portion of national agricultural production.

4. Contract farming of the kind that has aroused so much discussion is mostly practised in North America, where it has spread rapidly in the post-war years. The products mainly concerned are pigmeat, poultry meat and eggs, while some contract arrangements also exist for beef and dairy cattle. Appendix A to this document gives an indication of the extent of contract farming in these fields in the U.S.A. and Canada. Similar methods are beginning to be used in some European countries and are almost sure to be more widely adopted in the immediate future.

5. The main types of arrangements that are included under the general heading of contract farming vary a good deal in their degree of integration. In the milder forms the individual farmer remains the owner of land, livestock, and buildings, while contracting in advance with the integrator - usually a feed manufacturer, food processor, or chain store - to sell certain quantities (of broilers or hogs, for instance) at specified periods and for specified price premiums. The earlier practice of guaranteeing a specific price to the producer is rapidly disappearing in the face of rising production and falling market prices. The farmer usually undertakes to observe certain management practices and particularly the use of specified feeds manufactured or recommended by the integrating concern. In the more extreme forms the integrator provides the livestock and necessary buildings and equipment, lays down in detail the management practices to be followed and pays the farmer a fixed wage for his labour and the use of his land.

6. It is clear that arrangements of this kind go far to satisfy the economic and technical needs of the North American market. They make available to the relatively small producer - but not to the smallest, with whom the integrators generally refuse to contract - the latest findings of research on the feeding and management of poultry and hogs. They provide him (in the more completely integrated systems mentioned above) with the most suitable stock and equipment, or with the credit to obtain them. He is thus able to produce, at low unit cost, a regular supply of a highly standardized product, as demanded by the supermarkets and chain foodstores that are acquiring an increasingly dominant position on the North American food market.

7. Thus contract farming is in line with present-day economic trends. It can bring advantages to the consumer in the form of lower prices and more uniform quality, to the producer in the form of improved facilities and an (in the short term, at least) assured market, and to the integrator in the form of the ample profits to be realized from mass markets for his feeds on the one hand and for his pig and poultry meat on the other. But there are also drawbacks and dangers inherent in contract farming.

8. In a brief survey such as this it will not be possible to examine the detailed provisions of the contracts between integrators and farmers. These can vary widely, not only as between different integrators but also because nothing compels the individual integrator to offer the same conditions to all farmers. But whatever the terms of the contract it is clear that, in return for the technical assistance and an assured market, the farmer surrenders some part of his independence to an integrator whose interests do not necessarily coincide with farmers' and whose aim is to make as big profits as possible. This is true even for the less extreme kinds of contract; where the farmer supplies only land and works for a fixed wage,

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his whole status is changed. He ceases to be an entrepreneur. He becomes a wage-earner and one who, being tied to his land and owning no livestock, equipment, or farm buildings, finds it very difficult to go into any other employment and consequently sooner or later is left with little bargaining power.

9. Any considerable development of contract farming in its present forms seems therefore very likely to entail a serious limitation of competition for the farmer's services and product. Theoretically, of course, competition might continue between the integrators but given the scale of operations and the relatively small number of enterprises involved it would be surprising if some kind of zoning arrangement were not applied, enabling each integrator to enjoy a virtual monopoly in the area allotted to him. In this situation the terms of the contracts between integrators and farmers would no doubt become progressively more unfavourable for the latter, though with some compensation in the form of greater security and, possibly, government supervision of contracts.

10. These dangers are by no means far-distant eventualities. Even more immediate, however, is the problem of over-production. For broilers the problem already exists in the U.S.A. and Canada. In the past fifteen years there has been a 40-fold increase in broiler production in the U.S.A., for which the contract farming system is mainly responsible, and 95 per cent of broilers are produced under contract. The corresponding figure in Canada would be around 80 per cent. The price of broiler meat in Canada, which in the first half of 1958 was around 21-22 cents per pound liveweight to the grower, had sunk by the spring of 1959 to around 14-15 cents. This price is said to be below cost for the average small and medium non-integrated producer, and even some integrators have suffered losses. This explains their recent tendency to eliminate the price guarantees in contracts made with farmers, and to substitute bonuses for efficiency.

11. Even supposing that prices do not fall to the point where the integrated operators themselves cannot continue profitably, it remains that the average independent grower of broilers is already, and will be increasingly, faced with extremely serious difficulties. Not every farmer who wishes can obtain a contract. Integrators discriminate, and not every region is covered. The classical, text-book answer is that the inefficient - i.e. non-integrated - producer must get out. But today it is realized, even by governments and non-agricultural interests, that this process can only be allowed to act slowly and with precaution. A considerable extension of contract farming in a few branches of production, resulting in a steep fall in prices, could have consequences that, leaving aside the human, social, and political aspects of the problem, would not even have economic justification.

12. This, in necessarily over-simplified terms, is the situation faced by farmer organizations: in the U.S.A. and in Canada, widespread use of contract farming in livestock production, with varying degrees of saturation of the market, and elsewhere the beginnings of what may be a similar development. Farmer organizations cannot be indifferent, nor can they afford to remain for long without a defined policy. Their task - in which farmer co-operatives must play an important part - is to secure for farmers (and for consumers) the benefits of the most effective production methods while protecting them from possible abuses of the contract farming system and from a too rapid expansion of output.

13. It is not surprising that the attitude of farmer co-operatives in the two countries mainly concerned - U.S.A. and Canada - has so far been generally hesitant. Whether seen from a businessman's or a co-operator's viewpoint, much is at stake - enormous capital, and some basic principles of co-operation. It is not too much to say that the whole future of farmer co-operatives may depend on decisions taken in the face of the challenge of contract farming.

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14. Various lines of action are theoretically open to farmer organizations. They could confine themselves to checking the terms of contracts between integrator and farmer, pointing out any unfairnesses and seeking to get them remedied. They might go a step further and enter into collective bargaining with the integrators on behalf of their members. If willing to commit themselves more completely, they could by becoming contractors themselves or by engaging in other forms of action try, through generally improved efficiency, to outdo the feed manufacturers and chain foodstores.

15. A supervision of contracts would be a useful but limited measure. It has the advantage of being immediately applicable, since it involves neither basic principles nor big investments, and would probably save individual farmers from signing disadvantageous contracts. This supervision would be a matter primarily for general farm organizations. It would, however, leave the situation substantially unchanged. No amount of supervision by co-operatives would prevent a hardening in the contracts once the integrators were in a position to impose their terms.

16. Although collective bargaining (by general farm organizations, by farmer co-operatives, or by specially formed bodies) goes a good deal further than a mere check on contracts arrived at by each farmer individually, the same kind of criticism can reasonably be made. Collective bargaining can eliminate individual abuses and discriminations but its effectiveness in improving conditions of farmers as a whole, or for all those engaged in the particular branch of production concerned, depends upon the existence of a competitive alternative to contracting with the private integrator.

17. The real choice for co-operatives wishing to intervene decisively therefore lies between adopting contract farming and doing it better than the private integrators, or seeking other methods of matching the efficiency of these latter.

18. It can be noted, first of all, that there are many resemblances between the services and protection offered by contract farming on the one hand and by ordinary co-operative methods on the other. Many farmer co-operatives maintain technicians to advise members on such things as feeds, fertilizers, and livestock husbandry; many also engage in processing and distribution, sometimes even as far as the final consumer. Marketing co-operatives in many countries are under an obligation to accept all quantities of produce their members offer them for sale, not merely the specified amounts provided for under contract farming. In times of over-abundance many co-operatives will give their members an immediate advance (of perhaps 70 per cent or 80 per cent of the estimated sale price) and store the product until the market is stronger. These and similar services strengthen the position of the individual grower considerably. The co-operatives, it is true, cannot guarantee a certain level of returns to the producer. But recent experience in North America shows that private integrators cannot do so either for very long. In any case the advantages they offer can only be made available for a limited volume of production and, consequently, for a limited number of producers who, under the contract, accept corresponding obligations and restrictions on their freedom of action. With these restrictions co-operatives could grant similar terms. But a co-operative - which is essentially a non-discriminating association, open to anyone belonging to the category catered for - has to serve wider interests. It is conceivable that a co-operative in certain conditions - for instance, with limited territorial coverage, uniform farm structure, and control over retail outlets - could offer contracts to all its members, and to any other farmers in its area who might wish to become members. But in most cases, where an introduction of contracts would inevitably mean accepting some and rejecting others, the

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dangers of disunity and splitting up would be considerable. Once the idea of discrimination is admitted it is hard to set any limits to it and the universal nature of co-operation would be fundamentally changed.

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8. Farmer co-operatives in many cases provide their members with most of the services and advantages offered by the private integrator - technical advice, credit, an assured market. The supposed ability of the private integrator to give more than the co-operative in terms of security and high returns depends essentially on one thing - the integrator chooses his farmers and binds them by contract, while the co-operative is open to all farmers, has no control over their management practices, and often no effective control over their marketing. The integrator is there to make profits and in so doing may also serve the interests of a number of selected farmers; the co-operative is there to serve all farmers.

9. It is clear, therefore, that for farmer co-operatives in many countries to practise contract farming as currently worked in North America by private integrators would involve a fundamental change in the concept of co-operation. (It could no longer be considered as a unifying force.)

10. Rather than embark on such a course - which, from the viewpoint of the economy as a whole, could have the disadvantage of encouraging over-production and a one-sided development of those branches of agriculture that are suited to contract farming - co-operatives should study as a matter of urgency the many other forms of integration that can enable them constantly to widen and improve their services to farmers. There are numerous possibilities: integration between the local, regional, and national echelons of a given branch of co-operation, integration between marketing, supply, and credit co-operatives at all levels, integration - or at least co-ordination - between the rural and the urban co-operative movements. This latter deserves particular attention, since agreements with consumer co-operatives would in certain cases give the farmer co-operatives the benefit of large, assured outlets for their products (one of the strengths of the contract farming system in North America as practised by or in conjunction with chain foodstores and supermarkets).

11. If these various possibilities are fully exploited - they naturally differ widely from one country to another - farmer co-operatives should be capable of maintaining and improving their position in relation to their private competitors. The necessary complement to this effort in the technical and organizational field is the provision of full and objective information to farmers, both members and non-members, and to the community as a whole. It must be stated emphatically that the farmer who contracts with a private integrator surrenders his freedom of choice - in the long run, perhaps his independence - to a profit-making concern where he has no voice. Whatever freedom the farmer surrenders to his co-operative, he surrenders to a democratically run organization that exists exclusively to serve his interests and those of his fellow farmers.

Section A
Document AC 3/59
August 1959
Original: English

IFAP 47

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

AGRICULTURAL CO-OPERATIVES AND INTEGRATION (CONTRACT FARMING)

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. The term integration is frequently used to describe a dual phenomenon: the tendency towards larger economic units and towards unified management over wider areas of the economy. Such tendencies are visible in all sectors of a modern economy. Even in agriculture, where they are generally harder to carry through than in other sectors, many countries show a long-term trend towards the formation of larger, more closely linked producing and marketing units.

2. It is not the place here to discuss the multiple forms that these tendencies can take, the problems peculiar to each sector of economic activity, nor even the factors - including some purely economic ones - that limit the scope for integration in agriculture, for these are well-known to farmer representatives. The problems to be discussed here are those raised specifically by a certain form of integration known as "contract farming". One general remark may, however, be made. Integration is usually considered under the sub-headings "vertical" and "horizontal". Contract farming is a form of vertical integration, involving in its most complete form the whole chain of production, processing, and distribution for a given product. Co-operatives, on the other hand, come under the heading of "horizontal integration" as they unite a homogeneous category of persons - farmers at the production end of the chain, consumers at the distribution end, and many groups in between. But it is clear that farmer marketing co-operatives, for instance, realize a degree of vertical integration when they engage in collection of the crop from the farmer, in its processing and distribution to wholesalers or retailers, replacing a thousand individual transactions between farmers, collectors, processors, and distributors by a unified operation extending from production to distribution. Co-operatives are thus, beyond any doubt, a form of integration. It is a form that, we are convinced, has special virtues and it is necessary to examine how far these are compatible with other formulas of integration, such as contract farming.

3. Some kinds of contract farming have been known for many years, and have raised no serious problems. Growers of sugarbeet and of fruit and vegetables for canning usually contract with the sugar factory or the canneries for a certain acreage or perhaps a specified weight. There are obvious technical reasons for this. A cannery, for instance, must operate at something near full capacity, especially as its season is often short. In the absence of a contract with the producers, it is liable to find itself with insufficient volume in years when there is a ready and profitable sale of fruit (or vegetables) on the market for direct consumption. There is also the important consideration of securing high and uniform quality. At the same time the farmers usually welcome such contractual arrangements which,

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by specifying a certain price or price range, provide an element of stability in a market subject to violent fluctuations. These older forms of contract farming, while important in certain regions, seldom account for a significant portion of national agricultural production.

4. Contract farming of the kind that has aroused so much discussion is mostly practised in North America, where it has spread rapidly in the post-war years. The products mainly concerned are pigmeat, poultry meat and eggs, while some contract arrangements also exist for beef and dairy cattle. Appendix A to this document gives an indication of the extent of contract farming in these fields in the U.S.A. and Canada. Similar methods are beginning to be used in some European countries and are almost sure to be more widely adopted in the immediate future.

5. The main types of arrangements that are included under the general heading of contract farming vary a good deal in their degree of integration. In the milder forms the individual farmer remains the owner of land, livestock, and buildings, while contracting in advance with the integrator - usually a feed manufacturer, food processor, or chain store - to sell certain quantities (of broilers or hogs, for instance) at specified periods and for specified price premiums. The earlier practice of guaranteeing a specific price to the producer is rapidly disappearing in the face of rising production and falling market prices. The farmer usually undertakes to observe certain management practices and particularly the use of specified feeds manufactured or recommended by the integrating concern. In the more extreme forms the integrator provides the livestock and necessary buildings and equipment, lays down in detail the management practices to be followed and pays the farmer a fixed wage for his labour and the use of his land.

6. It is clear that arrangements of this kind go far to satisfy the economic and technical needs of the North American market. They make available to the relatively small producer - but not to the smallest, with whom the integrators generally refuse to contract - the latest findings of research on the feeding and management of poultry and hogs. They provide him (in the more completely integrated systems mentioned above) with the most suitable stock and equipment, or with the credit to obtain them. He is thus able to produce, at low unit cost, a regular supply of a highly standardized product, as demanded by the supermarkets and chain foodstores that are acquiring an increasingly dominant position on the North American food market.

7. Thus contract farming is in line with present-day economic trends. It can bring advantages to the consumer in the form of lower prices and more uniform quality, to the producer in the form of improved facilities and an (in the short term, at least) assured market, and to the integrator in the form of the ample profits to be realized from mass markets for his feeds on the one hand and for his pig and poultry meat on the other. But there are also drawbacks and dangers inherent in contract farming.

8. In a brief survey such as this it will not be possible to examine the detailed provisions of the contracts between integrators and farmers. These can vary widely, not only as between different integrators but also because nothing compels the individual integrator to offer the same conditions to all farmers. But whatever the terms of the contract it is clear that, in return for the technical assistance and an assured market, the farmer surrenders some part of his independence to an integrator whose interests do not necessarily coincide with farmers' and whose aim is to make as big profits as possible. This is true even for the less extreme kinds of contract; where the farmer supplies only land and works for a fixed wage,

his whole status is changed. He ceases to be an entrepreneur. He becomes a wage-earner and one who, being tied to his land and owning no livestock, equipment, or farm buildings, finds it very difficult to go into any other employment and consequently sooner or later is left with little bargaining power.

9. Any considerable development of contract farming in its present forms seems therefore very likely to entail a serious limitation of competition for the farmer's services and product. Theoretically, of course, competition might continue between the integrators but given the scale of operations and the relatively small number of enterprises involved it would be surprising if some kind of zoning arrangement were not applied, enabling each integrator to enjoy a virtual monopoly in the area allotted to him. In this situation the terms of the contracts between integrators and farmers would no doubt become progressively more unfavourable for the latter, though with some compensation in the form of greater security and, possibly, government supervision of contracts.

10. These dangers are by no means far-distant eventualities. Even more immediate, however, is the problem of over-production. For broilers the problem already exists in the U.S.A. and Canada. In the past fifteen years there has been a 40-fold increase in broiler production in the U.S.A., for which the contract farming system is mainly responsible, and 95 per cent of broilers are produced under contract. The corresponding figure in Canada would be around 80 per cent. The price of broiler meat in Canada, which in the first half of 1958 was around 21-22 cents per pound liveweight to the grower, had sunk by the spring of 1959 to around 14-15 cents. This price is said to be below cost for the average small and medium non-integrated producer, and even some integrators have suffered losses. This explains their recent tendency to eliminate the price guarantees in contracts made with farmers, and to substitute bonuses for efficiency.

11. Even supposing that prices do not fall to the point where the integrated operators themselves cannot continue profitably, it remains that the average independent grower of broilers is already, and will be increasingly, faced with extremely serious difficulties. Not every farmer who wishes can obtain a contract. Integrators discriminate, and not every region is covered. The classical, text-book answer is that the inefficient - i.e. non-integrated - producer must get out. But today it is realized, even by governments and non-agricultural interests, that this process can only be allowed to act slowly and with precaution. A considerable extension of contract farming in a few branches of production, resulting in a steep fall in prices, could have consequences that, leaving aside the human, social, and political aspects of the problem, would not even have economic justification.

12. This, in necessarily over-simplified terms, is the situation faced by farmer organizations: in the U.S.A. and in Canada, widespread use of contract farming in livestock production, with varying degrees of saturation of the market, and elsewhere the beginnings of what may be a similar development. Farmer organizations cannot be indifferent, nor can they afford to remain for long without a defined policy. Their task - in which farmer co-operatives must play an important part - is to secure for farmers (and for consumers) the benefits of the most effective production methods while protecting them from possible abuses of the contract farming system and from a too rapid expansion of output.

13. It is not surprising that the attitude of farmer co-operatives in the two countries mainly concerned - U.S.A. and Canada - has so far been generally hesitant. Whether seen from a businessman's or a co-operator's viewpoint, much is at stake - enormous capital, and some basic principles of co-operation. It is not too much to say that the whole future of farmer co-operatives may depend on decisions taken in the face of the challenge of contract farming.

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13. It is not surprising that the attitude of farmer co-operatives in the two countries mainly concerned - U.S.A. and Canada - has so far been generally hesitant. Whether seen from a businessman's or a co-operator's viewpoint, much is at stake - enormous capital, and some basic principles of co-operation. It is not too much to say that the whole future of farmer co-operatives may depend on decisions taken in the face of the challenge of contract farming.

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14. Various lines of action are theoretically open to farmer organizations. They could confine themselves to checking the terms of contracts between integrator and farmer, pointing out any unfairnesses and seeking to get them remedied. They might go a step further and enter into collective bargaining with the integrators on behalf of their members. If willing to commit themselves more completely, they could by becoming contractors themselves or by engaging in other forms of action try, through generally improved efficiency, to outdo the feed manufacturers and chain foodstores.

15. A supervision of contracts would be a useful but limited measure. It has the advantage of being immediately applicable, since it involves neither basic principles nor big investments, and would probably save individual farmers from signing disadvantageous contracts. This supervision would be a matter primarily for general farm organizations. It would, however, leave the situation substantially unchanged. No amount of supervision by co-operatives would prevent a hardening in the contracts once the integrators were in a position to impose their terms.

16. Although collective bargaining (by general farm organizations, by farmer co-operatives, or by specially formed bodies) goes a good deal further than a mere check on contracts arrived at by each farmer individually, the same kind of criticism can reasonably be made. Collective bargaining can eliminate individual abuses and discriminations but its effectiveness in improving conditions of farmers as a whole, or for all those engaged in the particular branch of production concerned, depends upon the existence of a competitive alternative to contracting with the private integrator.

17. The real choice for co-operatives wishing to intervene decisively therefore lies between adopting contract farming and doing it better than the private integrators, or seeking other methods of matching the efficiency of these latter.

18. It can be noted, first of all, that there are many resemblances between the services and protection offered by contract farming on the one hand and by ordinary co-operative methods on the other. Many farmer co-operatives maintain technicians to advise members on such things as feeds, fertilizers, and livestock husbandry; many also engage in processing and distribution, sometimes even as far as the final consumer. Marketing co-operatives in many countries are under an obligation to accept all quantities of produce their members offer them for sale, not merely the specified amounts provided for under contract farming. In times of over-abundance many co-operatives will give their members an immediate advance (of perhaps 70 per cent or 80 per cent of the estimated sale price) and store the product until the market is stronger. These and similar services strengthen the position of the individual grower considerably. The co-operatives, it is true, cannot guarantee a certain level of returns to the producer. But recent experience in North America shows that private integrators cannot do so either for very long. In any case the advantages they offer can only be made available for a limited volume of production and, consequently, for a limited number of producers who, under the contract, accept corresponding obligations and restrictions on their freedom of action. With these restrictions co-operatives could grant similar terms. But a co-operative - which is essentially a non-discriminating association, open to anyone belonging to the category catered for - has to serve wider interests. It is conceivable that a co-operative in certain conditions - for instance, with limited territorial coverage, uniform farm structure, and control over retail outlets - could offer contracts to all its members, and to any other farmers in its area who might wish to become members. But in most cases, where an introduction of contracts would inevitably mean accepting some and rejecting others, the

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dangers of disunity and splitting up would be considerable. Once the idea of discrimination is admitted it is hard to set any limits to it and the universal nature of co-operation would be fundamentally changed.

19. It therefore seems that many farmer co-operatives faced, or likely to be faced, with an extension of contract farming will tend to adopt forms of integration, other than contract farming, that will enable them to compete effectively with other businesses and to maintain, if not increase, the relative strength of the co-operative sector. Failing this, they would be left with the uneconomic producers who cannot obtain a contract with a private integrator, with serious consequences for their powers of competition and, indeed, their whole status.

20. The scope for co-operative integration, and the forms it may take, naturally vary from one country to another and from one branch of agricultural production to another. Recent examples from the U.S.A. and Canada are mentioned in Appendix A to this document. A far-reaching possibility that has not been much exploited so far concerns the integration that could be achieved between farmer co-operatives and consumer co-operatives. Where consumer co-operatives are fairly strong, this would provide assured outlets for large quantities of farm produce sold by the farmer co-operatives. Even within the agricultural co-operative movement there is room for greater co-ordination between its various branches, extending in some cases to a measure of integration.

21. The economics of contract farming are vitally affected by government policy. Where the product concerned enjoys some measure of price support, operations are simplified. The integrator knows in advance what his minimum takings will be, regardless of the state of the market. At the same time, however, the security given by price support may render contract arrangements less attractive to the farmer. Moreover, governments will be keeping a strict watch on volume of production in order to hold its expenditure on the support program within acceptable limits. A very significant development in this respect is a recent statement made by the Canadian Minister of Agriculture suggesting that the government will adopt the deficiency payment method to fulfil its obligations to support hog prices, and that "commercial organizations operating under the so-called vertical integration plan" will not be eligible to receive such payments.

22. The broiler industry, however, which is the classical example of contract farming, does not enjoy price support either in the U.S.A. or in Canada. If the integrating concerns can give contracting farmers technical advice, credit, an assured market, and premiums for efficiency that farmers find satisfactory and even attractive, the reason can be seen mainly in two facts. The first is the ability of a large integrated enterprise to offset losses on one activity against profits on another. For a feed manufacturer, for instance, the key to contract farming is that it ensures the sale of large quantities of his feeds. The profits realized on the feeds enable him to offer attractive terms to the broiler producers - if necessary, even to accept some losses on the marketing of the broilers. In a different situation, with the broiler market firm and feed prices falling, the game could be played the other way round. What counts is not the economics of each activity in isolation but final profit on the whole integrated operation.

23. The other important fact is the existence of an assured, and subtly protected, mass market - that provided by the supermarkets and chain foodstores. Sometimes these concerns engage directly in contract farming, sometimes they have an arrangement with other integrators. This retail market is effectively protected by the consumer's habits, by advertising, by the maintenance of standard quality. Perhaps it is protected even more effectively by the flexibility mentioned in paragraph 22.

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The supermarkets and chain foodstores do not sell just broilers. They sell a thousand and one items. The customers will not stop coming to the supermarket just because it charges another cent per pound on broilers; they may buy fewer broilers but the money saved will go on beef or pork or something else that the supermarket sells. On the other hand, if the supermarket considers it essential to keep up broiler sales it can very well sell them at a loss, for a time, and recoup by a mark-up in some other of its departments.

24. How are farmer co-operatives placed to take advantage of these two factors? The big multi-purpose co-operatives certainly have a sufficiently wide range of activities, but cannot exploit this strength with the same flexibility as a private company. While it is probably true that most multi-purpose co-operatives from time to time finance one activity with surpluses derived from another, there are often quite strict limits to such action. The co-operative's function being to render services to its members-customers at something close to cost, a multi-purpose co-operative is entitled to merge its funds only if all the members utilize all the services. Where a service is provided for a minority of members, it will usually have to be self-supporting, receiving no subsidy from general funds and retaining any surpluses that arise. Departures from this principle are, of course, not uncommon, and can be explained either by a highly developed sense of solidarity within the co-operative or by the ability of management to get its policies accepted or tolerated. Nevertheless, the room for manoeuvre in a co-operative is clearly much more limited than in a private company, where management is more autonomous and has as its essential duty to produce maximum profits for the shareholders from the concern's integrated fields of activity.

25. As for the retail outlets, farmer co-operatives are generally not yet in a strong position. Few of them possess their own stores selling to the public (and then usually on only a small scale). Information available to IFAP is too sketchy to permit any firm statement about the extent to which farmer co-operatives may have arrangements with retailers, consumer co-operatives, or institutions guaranteeing them a certain market for their products, but the indications are that only a small proportion of the total sales of farmer co-operatives is covered by such arrangements. In the face of the integration practised by private trade, exemplified by the relationship between feed manufacturers and chain foodstores in the U.S.A. mentioned above, farmer marketing co-operatives must look for ways of protecting the retail market for their products. In a number of countries, particularly in Europe, it might be possible to reach satisfactory arrangements with the consumer co-operative movement in the first place, and also with the private trade.

26. Finally, the problem of over-production touched on in paragraph 10 cannot be seen realistically in isolation from government agricultural policy and the chronic surplus situation for some staple farm products. Over-production of, for instance, broilers is in many ways a different problem from that of wheat and no doubt less intractable. The basic causes are, however, the same - amazing advances in production techniques, and a complex of government agricultural support policies affecting immediately the commodities concerned and beyond them farming and the national economies as a whole. It is not the task of this paper to attempt an analysis of these immensely complicated problems, beyond noting that farmers and their organizations alone cannot be expected to solve them.

Section C
Document AC 3/59
August 1959
Original: English

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IFAP

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

AGRICULTURAL CO-OPERATIVES' CONTRIBUTION TO THE ADJUSTMENT OF SUPPLY TO DEMAND

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. By speaking of the contribution to be made by agricultural co-operatives, the title of this section makes it clear that theirs is not the only, or even the major, responsibility for securing a satisfactory adjustment of the supply of farm products to the demand. This fact deserves to be emphasized at the start. In the textbook economy, with large numbers of independent and individually unimportant farmers, this adjustment was thought to depend ultimately on the response of the farmers themselves to their economic environment. In the materially advanced countries, the success of farmers in adjusting their output upwards has been striking; their ability to reduce certain items of their production for which demand has declined has been generally disappointing. In the developing countries, a rapid increase in the production of almost all food is required, but while performance has been variable it can be noted that, in general, rates of increase have been lower than those achieved by the agriculture of the more advanced countries.

2. There are many reasons, well known to all students of agricultural economics, to account for this situation. They need not be recalled here. But one conclusion can be drawn that seems beyond question: in present-day conditions it is not within the power of farmers, by their own unaided efforts, to create and maintain a satisfactory balance between supply and demand. Let us leave aside such special - though highly important - cases as hogs, where the perfectly normal response of the producer to economic factors leads to a cyclical movement in which equilibrium is only attained to be immediately disturbed again. Let us also leave aside the tendency of farmers, in many circumstances, to expand their output in response to falling prices, rather than reducing it. The basic fact is that in virtually every country today government decisions of all kinds have a major influence on the direction taken by agriculture, as also by other economic activities. This increasing intervention by governments is itself due in a large degree to the failure of the mechanism of supply and demand to ensure a satisfactory balance - sometimes, of course, not because of inherent defects in the mechanism but because powerful interests interfered with it.

3. In these circumstances it is hard to lay the main responsibility on the producer. He no longer works for a local market whose needs he can forecast with accuracy. He is faced with many conditions which are artificial in the sense that they do not result from the unimpeded interplay of supply and demand. These conditions can change abruptly in a way that the individual farmer cannot be expected to foresee. Government measures are often taken, and have to be taken, without any certainty of the way in which farmers will react to them.

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4. This does not mean, however, that farmers can remain passive before the problem of modifying supply in accordance with demand. It is, after all, their decisions that directly determine (subject to natural hazards) the volume and composition of agricultural production. They are closest to the technical and economic problems of switching production. If it is unreasonable to require farmers to solve the supply-demand riddle by themselves, it is equally unreasonable for them to call on governments to do so, without first making a serious attempt to understand the main features of the situation existing today and to see what action the agricultural community itself can take towards improving it. It is, in fact, only through the active collaboration of farmers and their organizations with government and research workers, particularly market forecasters, that an improvement can be achieved. Farmer organizations clearly have a particular responsibility, more especially perhaps the farmer co-operatives whose activity gives them an insight not only into the individual farmer's problems and lines of thought but also into the wider economic issues, national and international.

5. First of all, a distinction must be made between long-term and short-term adjustment, the problems involved being very different. Long-term adjustment can be seen as the complete solution of the problem by a modification of the volume, quality, and composition of supply in accordance with demand. Clearly it is never achieved once and for all but is a continuing process. Short-term adjustment covers the many ways of making the best of a given situation, in which the production process is finished and the resulting quantities have to be disposed of in one way or another. A considerable part of the functions of an agricultural marketing co-operative usually consist precisely of this. It is a much more limited field than the adjustment of production at source, but one in which farmer co-operatives have greater possibilities for independent and effective action. These are discussed in the following paragraphs.

6. Only a well-integrated co-operative structure can respond fully to the requirements of each situation. The rôle of a purely local co-operative, acting in isolation, cannot but be extremely limited. For the sake of illustration, then, it is best to assume a co-operative at national level with powers to direct the marketing of supplies produced by farmer members and handled by the regional and local co-operatives throughout the country. In such a situation there are three main measures that can be taken to adjust supply to demand (assuming that total supply exceeds the demand). The first is a redistribution of supplies territorially in conformity with demand. It is clear that such redistribution will always tend to take place, with or without co-operatives. An integrated co-operative system, however, with information on supply and demand constantly flowing in to a central point from all parts of the country, can ensure that the necessary transfers are made as rapidly and as economically as possible, eliminating speculation and benefitting its members.

7. The second method is a redistribution of supplies in time, through storage. The extent to which this is possible varies considerably from one commodity to another, as also the kind of storage required and the wastage. Cereals, for instance, can be stored for a long period without refrigeration and with a low rate of loss. Butter can be stored for fairly long periods but only with refrigeration, and deterioration in quality is noticeable. Soft fruits can only be stored in deep-frozen form. Considerable costs are involved in all cases. Effective action in this field is beyond the capacity of all but really large enterprises, co-operative or other. A well-equipped central co-operative, by taking supplies off the market at times of overabundance and selling when quantities coming forward are insufficient, renders a service both to farmers and to the consumers and introduces an element of stability into the market.

8. The third measure could be termed a redistribution by uses. Many agricultural products have several uses. Milk is used for direct human consumption, for butter, for cheese, and several other items. Potatoes are mainly grown for human consumption but poorer qualities go for animal feeding and starch making. Fruit and vegetables can be eaten fresh or canned, or used for their juice only. Here again a central co-operative, with up-to-date information about supply and demand in the various markets, can help its affiliated co-operatives to dispose of available quantities in the most advantageous way, whether or not the central co-operative itself engages in the various kinds of processing.

9. A co-operative structure with sufficient control over marketing at all levels can thus be well-equipped to put supplies where they are needed, when they are needed, and in the form they are needed. Many existing farmer co-operatives are doing just such a job for their members, and doing it efficiently. But in the situation prevailing today, with world supplies of some staples far exceeding effective demand, no amount of skilful handling can hide the existence of surpluses or counteract their depressing effect on the markets. The efforts of the co-operatives to match supply with demand by the methods just mentioned may thus have little practical result if total quantities produced continue to be in excess of the solvent demand for them, present or immediately foreseeable. Here the problems are much more stubborn and, as already stated, can only be solved through the united efforts of farmers and their organizations, government and indirectly all sectors of the economy.

10. So far the assumption has been that supply exceeds demand. This type of situation develops occasionally in Europe and North America. There are, of course, branches of agricultural production where increased output can be quickly absorbed, but a major preoccupation is to bring the supply of surplus commodities into line with demand. The picture is completely different in the developing countries. Perhaps the most serious problem facing many of these countries is to provide their people with a much more abundant and cheaper food supply. It is a task that seems to be almost as difficult as the contrary one of reducing production in the economically advanced countries. For co-operators in particular, it is distressing even to discuss curtailing production anywhere until much more serious efforts have been made to bring the superfluous plenty of the well-fed countries to the populations that go permanently hungry. This cannot be stated too often, for there is always a danger, in technically advanced countries, of seeing problems in too narrow a context. IFAP has repeatedly pressed governments to take action so that superabundance in one part of the world may be used to alleviate malnutrition elsewhere. If the present Conference is considering, in part, ways of limiting production of certain farm commodities in some areas of the world, it is to some extent because of the failure of governments to agree on constructive methods of using abundance internationally. The result is a situation in which only the negative aspects of surpluses are apparent and ways of curtailing them have necessarily to be examined.

11. It was stated above that the contribution of farmer co-operatives to a long-term adjustment of supply to demand must be related to government action towards the same end. At a time when free market mechanisms are often modified by government interventions of various kinds, it seems that an urgent need is to know more exactly how farmers react to given incentives and disincentives. Policies have frequently come to grief because the response of farmers, and others connected with the farming business, to a particular set of conditions has not been correctly foreseen. Farmer co-operatives should be able to throw some light on these problems, thus aiding the agricultural policy makers in their difficult task.

12. Working in the other direction - back towards their members - the co-operatives should see that farmers are provided with information on the general economic situation and prospects and on market outlook for the commodities they produce. In some countries official services do an excellent job of bringing such material to the farmer's notice but elsewhere co-operatives could - and often do - help their members to obtain a reliable factual basis for their major decisions affecting the farm enterprise.

13. Farmer co-operatives can do more than this, however, and their effectiveness in the wider tasks springs from the nature of the relationships built up within the membership and from the confidence enjoyed by the elected leaders. They can exercise leadership in getting their members to think objectively about the big economic issues facing agriculture, in particular the adjustment of supply to demand. They can, as a practical step, make a point of avoiding policies that may aggravate over-production of certain commodities, even though such policies may sometimes seem attractive in the short run. Most co-operatives already try to encourage quality production by paying premiums to their members for the higher grades, or penalizing the low ones. When a commodity is in chronic over-supply such regulations can be tightened up, for in many cases it is only the poorer qualities that are in excess of demand. The effectiveness of these measures, at national and international level, depends of course on the proportion of total production accounted for by the members of co-operatives. Where farmer co-operatives have only a modest share of production their efforts cannot make any substantial difference if other producers follow conflicting policies, and the result may merely be to increase the difficulties of the co-operatives.

14. Even where co-operatives are in a position to influence a large proportion of total production, some reserves must be expressed concerning the ways in which they should exert this influence. In advocating production policies to avoid excess supplies, co-operatives must take care not to lay themselves open to the charge of political partisanship. It is also clear that once they start urging their members to take certain management decisions, rather than merely giving them neutral information on which to base their own judgment, co-operatives assume a moral responsibility which may later be translated into a kind of co-management. Some of the implications are discussed in Document AC 3/59, Section A. The choice is an important one and should be made consciously, not imposed by an automatic trend whose significance is overlooked until too late. These are matters for the discretion of co-operative leaders; they should be able to avoid the pitfalls and find appropriate methods to enable farmers to do the utmost in their power toward balancing supply with demand.

15. Turning now to the situation of the developing countries, where large increases in food production are urgently needed, it seems that the scope for co-operative action is a good deal wider. It is always congenial for a farmer organization to urge greater rather than less production. To ask farmers to produce less, or to shift their production, is often regarded by them as the same thing as asking them to accept a smaller income, or to take unknown risks. Many of the small farmers in the developing countries are in such poverty that they have almost nothing to lose; indeed, their only prospect of improved living standards lies in increasing their output, and as this corresponds with the most pressing need of their countries, governments and co-operatives alike can work wholeheartedly to this end.

16. This being so, why has not greater progress been achieved? The answer no doubt is to be found quite simply in the formidable obstacles that stand in the way of this concerted drive. One is illiteracy, shutting off access to written sources of information on the sciences and techniques involved in agricultural

production and marketing. Another is the force of tradition, whose hold necessarily remains strong wherever illiteracy is widespread. Under-nourishment brings not only disease but, more generally, debility and a reduced capacity for physical exertion. Powerful interests flourish by maintaining the farmers in a state of poverty and subjection, and defend their positions stubbornly. The rôle of co-operatives in developing the economies of these countries is discussed in Section B. Here it remains to add a word about the specific aspect of this development with which the present paper is concerned.

17. The co-operative movements in the newly developing countries are largely a creation of governments. This is not to belittle the efforts of enlightened individuals who have sometimes managed to build up admirable co-operatives in the areas where they are influential; but the bulk of the co-operatives have a more or less official character. The reasons for this do not need to be enumerated. As a consequence of their official origin, co-operatives are in many cases regarded as an agency of government and are used as such - primarily in an attempt, direct or indirect, to increase off-farm production. In this case there is no specifically co-operative contribution to the adjustment of supply to demand, but at most the execution by co-operatives of certain features of government policy. This relationship will undoubtedly delay the development of truly independent and self-governing co-operatives; on the other hand, the problems to be solved are of such magnitude that no rapid progress can be expected unless all available forces are thrown into the struggle under a central direction that can only come from the government.

CONCLUSIONS

The Committee may, at the conclusion of its debate on the subject discussed in the present section, wish to summarize its findings along the following lines:

1. Adjustment of the supply of agricultural produce to the effective demand can be either upwards or downwards. Where supply is in excess of demand, adjustment has two aspects - the modification of supply at source and the utilization of given quantities once produced.

2. In the materially advanced countries it generally proves easy to increase supply where demand is strong; more troublesome is the downward adjustment in supply of certain commodities chronically or occasionally in surplus. In the developing countries, on the contrary, the overriding problem is to increase production.

3. In most countries the volume and composition of agricultural production are affected, directly and indirectly, by government policies. Farmers alone cannot be held responsible for, or expected to remedy, the disequilibrium often existing between supply and demand. But they must attempt, through their organizations, to understand the situation in which they find themselves and to give all aid possible to government policy-makers in their difficult task.

4. As regards the handling of given supplies in order to achieve the greatest satisfaction of demand, this is a normal function of farmer co-operatives which can be carried out effectively by an integrated national co-operative structure. The various measures taken to this end can be classified as redistribution of supplies in place, in time, and in utilization. In exercising this function farmer co-operatives are daily making a valuable contribution to the adjustment of supply to demand. Their efforts may, however, be nullified if supply is greatly in excess of demand.

5. The fundamental problem is therefore that of adjusting supply at source. In terms of the nutritional needs of the world's population as a whole there are no surplus supplies, and IFAP, along with other organizations, has always urged governments to co-operate internationally in using the overabundance of one country or continent to feed the hungry elsewhere. The failure to achieve a constructive solution of the problem on a large scale has necessarily emphasized the negative aspects of surpluses and led to consideration of ways of limiting them.

6. The contribution that farmer co-operatives can make to this end is subordinate in almost all cases to government policy. Within this framework, however, they have a duty to inform their members objectively on the general economic situation and on market outlook for the various commodities, to encourage quality production, and in general to avoid policies that might aggravate over-production. They should also be able to throw light on the way farmers react to certain incentives and disincentives, for the benefit of government

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policy-makers. In these activities co-operatives must take care not to encroach on the independent management functions of their members.

7. In the developing countries, where in practically all branches of agriculture increased production is urgently needed, co-operatives can perhaps exercise a more positive influence - basically an educational influence, leading to a greater willingness on the part of the farmers to use modern production methods and to co-operate with one another in marketing, supply, and the provision of other services. At present, the co-operative movements in most of these countries are in varying degrees government-sponsored, and their policies are often laid down by the authorities rather than freely arrived at by the members. When more independent co-operatives develop, they will no doubt continue to collaborate closely with government in encouraging increased agricultural production, since this is so clearly in the interests of all, and their independence should give their counsel greater weight with the farmers.

Appendix A
to
Document AC 3/59
August 1959
Original: English

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IFAP

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

RECENT DEVELOPMENTS IN AGRICULTURAL INTEGRATION IN NORTH AMERICA

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. Since World War II there have been numerous developments, throughout the world, in the direction of expansion of the sizes of individual agricultural producing or marketing units (horizontal integration) and toward the bringing together under individual managements, especially through contractual arrangements, of production, processing, and marketing functions in the field of agriculture (vertical integration). The most striking of these latter developments have occurred in the United States and Canada and have been popularly referred to in those countries as "vertical integration and contract farming". These, which have taken place largely in the fields of animal and poultry husbandry, have been motivated chiefly by three considerations: (a) the desire to dispose of abundant supplies of manufactured feed; (b) the need to have large production units in order to take advantage of recent technological developments in the breeding, feeding, and care of livestock and poultry; and (c) the need to respond effectively to the increasing demands, on the parts of retailers of food and of consumers, for higher and more uniform quality products.

2. For the Sixth Meeting of North American members of IFAP, held in Ensenada, Mexico, in March of this year, a discussion paper entitled "Integration of Agriculture in North America" was prepared. This paper contained, in the last section, a somewhat detailed account of developments, on a commodity basis through the year 1958 in North America, in the field of vertical integration. In a supplement to the Ensenada paper an attempt was made to summarize the principal integration developments, up to the beginning of 1959, in the three countries concerned - the United States, Canada, and Mexico - and to present certain conclusions as to their significance. The summary brought out: (a) that the most important new "vertical integration" developments have applied to the livestock and poultry industries of the United States and Canada; and (b) that, while much of the impetus for establishing "contractual arrangements" has come from private business concerns - especially feed manufacturers and chain grocery stores - farmers' co-operative marketing associations had played important parts in these developments. The conclusions contained in this supplement were as follows:

> "1. The trend toward larger, more highly integrated, and more efficient operations in the production and marketing of North American agricultural products will continue.

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"2. In respect to the major (basic) crops the major trend will be toward an expansion in the sizes of the production unit - the individual farm. An increasing proportion of these large farm units will probably be run on a corporate, rather than family farm, basis.

"3. In respect to livestock and poultry, the trend toward an expansion in the number of animal units handled in a single operation also will continue. Probably, however, a larger proportion of such operations - in contrast to crop production - will be managed by individual farm families under some kind of contractual arrangement.

"4. These 'integration' developments pose a serious threat to the 'small' producer who lacks the land and equipment necessary to take advantage of modern technology - unless some system, or systems, of equitable 'contracting' can be developed.

"5. Co-operative organizations can play an increasingly important rôle in all these developments if, through increased size and improved management, they put themselves in a position to do so.

"6. But the main threat - to all producers - posed by integration is that of over-production. The new techniques for increasing yields of crops per acre and of meat per animal are being applied not only in the established commercial areas but also - and to an increasing extent - in new areas. (Perhaps the best example of the latter is found in the expansion of animal and poultry husbandry in the Southern United States.)

"7. Particularly difficult surplus problems are likely to arise (some have already arisen) where government price supports are set at levels which may prove very attractive to the efficient and energetic, integrator.

"8. What seems obviously required is effective co-operation between the producers and the governments concerned - on both a national and an international basis - to keep production within hailing distance of the effective demand. Without such co-operation the 'surplus problem', in a still more aggravated form, is likely to extend, indefinitely, into the future."

3. Developments in 1959 have tended to confirm the validity of the conclusions just cited. There have been, however, a number of interesting further developments relating to vertical integration, in the United States and Canada, during the present year which should be noted here in order to bring the picture up to date. These further developments are described, in the following paragraphs, on a commodity basis.

Poultry and Eggs

4. Broilers continue to provide the outstanding example of "contract farming" in the United States and Canada. It is estimated that, at the present time, 95 per cent of the broilers produced in the United States and over 80 per cent in some parts of Canada are raised on some kind of a contract basis. There has also

been, in both countries, a rapid expansion, during the last year or two, in the production of turkey broilers under contract. But, unlike the early contracts which often offered the producer a guaranteed price or a guaranteed income, present day contracts are emphasizing the payment of premiums, over and above the going market price, as a reward for efficiency in the conversion of feed into meat.

5. The more significant developments in the poultry industry, however, have applied to eggs. In the United States three more or less distinct systems of "vertical integration" have developed: (1) contract marketing and quality control programs under which the contractor, either a farmer co-operative or a private corporation, pays premiums to producers who agree to follow certain production and handling practices which tend to enhance quality; (2) contract production, in which private companies make agreements with individual farmers for the latter to produce eggs from hens owned by the companies; and (3) large owner-integrator operations which handle upward of 100,000 hens. In all of these operations emphasis is placed on securing the highest possible quality product and, through the replacement of layers from time to time, a smoothing out of seasonal fluctuations in egg production. Under the contract operations, there is also a strong tendency toward awarding, through premiums, the producers who are able to deliver, on a systematic basis, large quantities of high quality eggs. All of these developments are tending toward a marked increase in the sizes of laying flocks. (Few contractors will deal with producers having less than 500 hens and many of them insist on flocks of more than 2,000.) But these developments are also leading to a marked increase in the total production of eggs in the United States and to marked decrease in prices received by producers. Consequently, many former relatively small egg producers who are unable, or unwilling, to meet contract specifications, or who cannot obtain contracts in their vicinities, are going out of business.

6. Canadian developments in egg production and integration have been less complicated than, but along the same general lines as, those in the United States. Total production of eggs in Canada has increased about 20 per cent in the last five years - due mainly to improvements in breeding and feeding which have been facilitated by contract arrangements. But the egg situation in Canada differs in one important respect from that in the United States. The Canadian Government, under the Agricultural Stabilization Act of 1958, is committed to support producers' returns from eggs. It has been fulfilling this commitment by offering to buy eggs at a stipulated price (at present 44 cents per dozen for Grade A basis Montreal.) This has led to substantial purchases of eggs by the Agricultural Stabilization Board and, in turn, has led to a prospective change in the government's egg support program. The Minister of Agriculture has requested the Board to develop a new plan for stabilization of egg producers' returns through a system of deficiency payments. Under such a plan, the Board would pay individual producers sums sufficient to make up differences in the prices they actually receive in the market and the government price support level. This would permit limiting payments to particular quantities, or quotas, and, as the Minister explained, would make it possible to "withhold payment from commercial organizations operating under the so-called 'vertical integration' plan ...". This proposal has aroused considerable opposition in Canadian agricultural circles. But it seems clear that the Canadian Government is determined not to become involved in an unlimited egg-buying program.

Hogs

7. In the case of hogs, recent developments in Canada have been, perhaps, more significant than those in the United States. Of the former, the most interesting concerns the decision of the Canadian Government to consider seriously a change in its hog support program from the present one of government pork purchases to

support hog prices to a system of deficiency payments. As in the case of eggs, the Minister of Agriculture has announced that the change was being considered in order to make it possible to exclude "large-scale integrated operations" from the support program. As a direct result of this announcement, three of Canada's largest feed manufacturers have decided to curtail their contract operations with hog producers in Ontario. The Ontario Hog Producers Association (a co-operative that has opposed the integration activities of feed manufacturers), while applauding this curtailment of commercial contracting, has announced that it is opposed to the proposed deficiency program on the ground that it would "cut off Canadian hog exports to the United States". This latter view is based on the assumption that the United States Government would apply countervailing duties on imports of Canadian hogs in the event the government adopted deficiency payments.

8. In the United States, developments in hog integration have continued along the lines outlined in the Ensenada paper: (a) supervision under contract by packers and feed manufacturers of the operations of a large number of individual farmer owned units; (b) increased activity by supply and marketing co-operatives in the fields of hog production and marketing; and (c) the establishment by owner-integrators of very large production units. It will be of interest to consider the areas of the United States in which these several activities are taking place.

9. Supervision under contract is occurring almost entirely in the main Corn-Hog Belt. It is in this area, and especially Iowa and Illinois, in which the traditional independent corn producer/hog raiser predominates. It is, therefore, in this area in which packers and feed manufacturers can most readily find experienced and capable hog producers who are prepared to enter into contracts with them.

10. The principal co-operative developments affecting hog production and marketing (and, even, processing) have occurred chiefly in the Southern States, which have been traditionally deficit pork producers, and in the main hog producing States in the Corn Belt. Probably the most interesting example of the former is to be found in the State of Mississippi where the Mississippi Federation of Co-operatives is actively heading a program designed greatly to expand hog production in that State. In the Corn Belt the most important activities in "hog integration" are being carried out by the Consumers Cooperative Association of Kansas City - a large regional farm supply co-operative. The Consumers Cooperative Association has long been a manufacturer of feed for hogs and other livestock. It is establishing swine-testing stations at two locations in Iowa with a view, mainly, to encouraging farmers to turn to the production of meat-type animals which United States consumers are increasingly demanding. Most recently Consumers Cooperative Association has purchased, for $850,000, a meat packing plant with a capacity to handle 10,000 hogs weekly, in Denison, Iowa. These operations of Consumers Cooperative Association probably provide the best example in the United States of an attempt by a co-operative to meet the challenge of integration by commercial firms.

11. The large-scale owner-integrator operations (one of which aspires to an annual turnover of 100,000 hogs) are to be found mainly in the Southern States including, for this purpose, the State of Missouri. These operations have been started mainly by individual businessmen with a view to making substantial profits by producing and selling hogs in predominantly deficit hog producing areas. It remains to be seen whether these profits will be realized in the approaching period of large hog marketings and lower prices to producers.

Beef Cattle and Milk Cows

12. There is little new to report on integration developments affecting beef cattle and milk cows. The number of commercial feed lots for beef cattle continues to increase, especially in the Western States of the United States. A substantial part of the cattle fed in these lots are handled on the basis of contracts between herd owners and the feed lots with the former retaining title to the animals until they are sold for slaughter. Another, and perhaps greater part, consists of contracts made by packers and chain stores with the feed lot operators. Some of the lots are handled by co-operatives. An interesting new development has been the establishment of feed lots by grain co-operatives: by the Pendleton Grain Growers (Oregon) as a means of disposing of surplus barley and by grain sorghum growers in the Texas Panhandle.

13. The practice of pool-milking of dairy cows continues to attract attention - especially outside of the principal commercial dairy areas of the United States. Under this form of integration the owner of a dairy herd contracts with a central milking-pool to handle his herd on a fee basis with the owner paying for his proportionate share of feed, medicine, etc. The main advantage of this system to the owner of a dairy herd - aside from relieving him of the onerous task of milking - is to make it possible for him to sell his milk in the Grade A (fluid milk) market. An enterprise known as Fashion Farms in the State of Iowa has been much publicized during the last year or two as an example of an efficient pool-milking operation. But while this operation started only about two years ago on the basis of handling herds of nearby farmers, it now appears that a considerable proportion of the herds handled are owned by businessmen in Eastern United States who have been attracted by the apparent profit making possibilities.

Appendix A
to
Document AC 3/59
August 1959
Original: English

IFAP 65

ELEVENTH GENERAL CONFERENCE

NEW DELHI , INDIA

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8. In the United States, developments in hog integration have continued along the lines outlined in the Ensenada paper: (a) supervision under contract by packers and feed manufacturers of the operations of a large number of individual farmer owned units; (b) increased activity by supply and marketing co-operatives in the fields of hog production and marketing; and (c) the establishment by owner-integrators of very large production units. It will be of interest to consider the areas of the United States in which these several activities are taking place.

9. Supervision under contract is occurring almost entirely in the main Corn-Hog Belt. It is in this area, and especially Iowa and Illinois, in which the traditional independent corn producer/hog raiser predominates. It is, therefore, in this area in which packers and feed manufacturers can most readily find experienced and capable hog producers who are prepared to enter into contracts with them.

10. The principal co-operative developments affecting hog production and marketing (and, even, processing) have occurred chiefly in the Southern States, which have been traditionally deficit pork producers, and in the main hog producing States in the Corn Belt. Probably the most interesting example of the former is to be found in the State of Mississippi where the Mississippi Federation of Co-operatives is actively heading a program designed greatly to expand hog production in that State. In the Corn Belt the most important activities in "hog integration" are being carried out by the Consumers Cooperative Association of Kansas City - a large regional farm supply co-operative. The Consumers Cooperative Association has long been a manufacturer of feed for hogs and other livestock. It is establishing swine-testing stations at two locations in Iowa with a view, mainly, to encouraging farmers to turn to the production of meat-type animals which United States consumers are increasingly demanding. Most recently Consumers Cooperative Association has purchased, for $850,000, a meat packing plant with a capacity to handle 10,000 hogs weekly, in Denison, Iowa. These operations of Consumers Cooperative Association probably provide the best example in the United States of an attempt by a co-operative to meet the challenge of integration by commercial firms.

11. The large-scale owner-integrator operations (one of which aspires to an annual turnover of 100,000 hogs) are to be found mainly in the Southern States including, for this purpose, the State of Missouri. These operations have been started mainly by individual businessmen with a view to making substantial profits by producing and selling hogs in predominantly deficit hog producing areas. It remains to be seen whether these profits will be realized in the approaching period of large hog marketings and lower prices to producers.

Beef Cattle and Milk Cows

12. There is little new to report on integration developments affecting beef cattle and milk cows. The number of commercial feed lots for beef cattle continues to increase, especially in the Western States of the United States. A substantial part of the cattle fed in these lots are handled on the basis of contracts between herd owners and the feed lots with the former retaining title to the animals until they are sold for slaughter. Another, and perhaps greater part, consists of contracts made by packers and chain stores with the feed lot operators. Some of the lots are handled by co-operatives. An interesting new development has been the establishment of feed lots by grain co-operatives: by the Pendleton Grain Growers (Oregon) as a means of disposing of surplus barley and by grain sorghum growers in the Texas Panhandle.

13. The practice of pool-milking of dairy cows continues to attract attention - especially outside of the principal commercial dairy areas of the United States. Under this form of integration the owner of a dairy herd contracts with a central milking-pool to handle his herd on a fee basis with the owner paying for his proportionate share of feed, medicine, etc. The main advantage of this system to the owner of a dairy herd - aside from relieving him of the onerous task of milking - is to make it possible for him to sell his milk in the Grade A (fluid milk) market. An enterprise known as Fashion Farms in the State of Iowa has been much publicized during the last year or two as an example of an efficient pool-milking operation. But while this operation started only about two years ago on the basis of handling herds of nearby farmers, it now appears that a considerable proportion of the herds handled are owned by businessmen in Eastern United States who have been attracted by the apparent profit making possibilities.

Section C
Document AC 3/59
August 1959
Original: English

IFAP 70

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

AGRICULTURAL CO-OPERATIVES' CONTRIBUTION TO THE ADJUSTMENT OF SUPPLY TO DEMAND

(Prepared by the Secretariat)

(Reference: Item 3 of the Draft Agenda of the Standing Committee on Agricultural Co-operation)

1. By speaking of the contribution to be made by agricultural co-operatives, the title of this section makes it clear that theirs is not the only, or even the major, responsibility for securing a satisfactory adjustment of the supply of farm products to the demand. This fact deserves to be emphasized at the start. In the textbook economy, with large numbers of independent and individually unimportant farmers, this adjustment was thought to depend ultimately on the response of the farmers themselves to their economic environment. In the materially advanced countries, the success of farmers in adjusting their output upwards has been striking; their ability to reduce certain items of their production for which demand has declined has been generally disappointing. In the developing countries, a rapid increase in the production of almost all food is required, but while performance has been variable it can be noted that, in general, rates of increase have been lower than those achieved by the agriculture of the more advanced countries.

2. There are many reasons, well known to all students of agricultural economics, to account for this situation. They need not be recalled here. But one conclusion can be drawn that seems beyond question: in present-day conditions it is not within the power of farmers, by their own unaided efforts, to create and maintain a satisfactory balance between supply and demand. Let us leave aside such special - though highly important - cases as hogs, where the perfectly normal response of the producer to economic factors leads to a cyclical movement in which equilibrium is only attained to be immediately disturbed again. Let us also leave aside the tendency of farmers, in many circumstances, to expand their output in response to falling prices, rather than reducing it. The basic fact is that in virtually every country today government decisions of all kinds have a major influence on the direction taken by agriculture, as also by other economic activities. This increasing intervention by governments is itself due in a large degree to the failure of the mechanism of supply and demand to ensure a satisfactory balance - sometimes, of course, not because of inherent defects in the mechanism but because powerful interests interfered with it.

3. In these circumstances it is hard to lay the main responsibility on the producer. He no longer works for a local market whose needs he can forecast with accuracy. He is faced with many conditions which are artificial in the sense that they do not result from the unimpeded interplay of supply and demand. These conditions can change abruptly in a way that the individual farmer cannot be expected to foresee. Government measures are often taken, and have to be taken, without any certainty of the way in which farmers will react to them.

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4. This does not mean, however, that farmers can remain passive before the problem of modifying supply in accordance with demand. It is, after all, their decisions that directly determine (subject to natural hazards) the volume and composition of agricultural production. They are closest to the technical and economic problems of switching production. If it is unreasonable to require farmers to solve the supply-demand riddle by themselves, it is equally unreasonable for them to call on governments to do so, without first making a serious attempt to understand the main features of the situation existing today and to see what action the agricultural community itself can take towards improving it. It is, in fact, only through the active collaboration of farmers and their organizations with government and research workers, particularly market forecasters, that an improvement can be achieved. Farmer organizations clearly have a particular responsibility, more especially perhaps the farmer co-operatives whose activity gives them an insight not only into the individual farmer's problems and lines of thought but also into the wider economic issues, national and international.

5. First of all, a distinction must be made between long-term and short-term adjustment, the problems involved being very different. Long-term adjustment can be seen as the complete solution of the problem by a modification of the volume, quality, and composition of supply in accordance with demand. Clearly it is never achieved once and for all but is a continuing process. Short-term adjustment covers the many ways of making the best of a given situation, in which the production process is finished and the resulting quantities have to be disposed of in one way or another. A considerable part of the functions of an agricultural marketing co-operative usually consist precisely of this. It is a much more limited field than the adjustment of production at source, but one in which farmer co-operatives have greater possibilities for independent and effective action. These are discussed in the following paragraphs.

6. Only a well-integrated co-operative structure can respond fully to the requirements of each situation. The rôle of a purely local co-operative, acting in isolation, cannot but be extremely limited. For the sake of illustration, then, it is best to assume a co-operative at national level with powers to direct the marketing of supplies produced by farmer members and handled by the regional and local co-operatives throughout the country. In such a situation there are three main measures that can be taken to adjust supply to demand (assuming that total supply exceeds the demand). The first is a redistribution of supplies territorially in conformity with demand. It is clear that such redistribution will always tend to take place, with or without co-operatives. An integrated co-operative system, however, with information on supply and demand constantly flowing in to a central point from all parts of the country, can ensure that the necessary transfers are made as rapidly and as economically as possible, eliminating speculation and benefitting its members.

7. The second method is a redistribution of supplies in time, through storage. The extent to which this is possible varies considerably from one commodity to another, as also the kind of storage required and the wastage. Cereals, for instance, can be stored for a long period without refrigeration and with a low rate of loss. Butter can be stored for fairly long periods but only with refrigeration, and deterioration in quality is noticeable. Soft fruits can only be stored in deep-frozen form. Considerable costs are involved in all cases. Effective action in this field is beyond the capacity of all but really large enterprises, co-operative or other. A well-equipped central co-operative, by taking supplies off the market at times of overabundance and selling when quantities coming forward are insufficient, renders a service both to farmers and to the consumers and introduces an element of stability into the market.

8. The third measure could be termed a redistribution by uses. Many agricultural products have several uses. Milk is used for direct human consumption, for butter, for cheese, and several other items. Potatoes are mainly grown for human consumption but poorer qualities go for animal feeding and starch making. Fruit and vegetables can be eaten fresh or canned, or used for their juice only. Here again a central co-operative, with up-to-date information about supply and demand in the various markets, can help its affiliated co-operatives to dispose of available quantities in the most advantageous way, whether or not the central co-operative itself engages in the various kinds of processing.

9. A co-operative structure with sufficient control over marketing at all levels can thus be well-equipped to put supplies where they are needed, when they are needed, and in the form they are needed. Many existing farmer co-operatives are doing just such a job for their members, and doing it efficiently. But in the situation prevailing today, with world supplies of some staples far exceeding effective demand, no amount of skilful handling can hide the existence of surpluses or counteract their depressing effect on the markets. The efforts of the co-operatives to match supply with demand by the methods just mentioned may thus have little practical result if total quantities produced continue to be in excess of the solvent demand for them, present or immediately foreseeable. Here the problems are much more stubborn and, as already stated, can only be solved through the united efforts of farmers and their organizations, government and indirectly all sectors of the economy.

10. So far the assumption has been that supply exceeds demand. This type of situation develops occasionally in Europe and North America. There are, of course, branches of agricultural production where increased output can be quickly absorbed, but a major preoccupation is to bring the supply of surplus commodities into line with demand. The picture is completely different in the developing countries. Perhaps the most serious problem facing many of these countries is to provide their people with a much more abundant and cheaper food supply. It is a task that seems to be almost as difficult as the contrary one of reducing production in the economically advanced countries. For co-operators in particular, it is distressing even to discuss curtailing production anywhere until much more serious efforts have been made to bring the superfluous plenty of the well-fed countries to the populations that go permanently hungry. This cannot be stated too often, for there is always a danger, in technically advanced countries, of seeing problems in too narrow a context. IFAP has repeatedly pressed governments to take action so that superabundance in one part of the world may be used to alleviate malnutrition elsewhere. If the present Conference is considering, in part, ways of limiting production of certain farm commodities in some areas of the world, it is to some extent because of the failure of governments to agree on constructive methods of using abundance internationally. The result is a situation in which only the negative aspects of surpluses are apparent and ways of curtailing them have necessarily to be examined.

11. It was stated above that the contribution of farmer co-operatives to a long-term adjustment of supply to demand must be related to government action towards the same end. At a time when free market mechanisms are often modified by government interventions of various kinds, it seems that an urgent need is to know more exactly how farmers react to given incentives and disincentives. Policies have frequently come to grief because the response of farmers, and others connected with the farming business, to a particular set of conditions has not been correctly foreseen. Farmer co-operatives should be able to throw some light on these problems, thus aiding the agricultural policy makers in their difficult task.

12. Working in the other direction - back towards their members - the co-operatives should see that farmers are provided with information on the general economic situation and prospects and on market outlook for the commodities they produce. In some countries official services do an excellent job of bringing such material to the farmer's notice but elsewhere co-operatives could - and often do - help their members to obtain a reliable factual basis for their major decisions affecting the farm enterprise.

13. Farmer co-operatives can do more than this, however, and their effectiveness in the wider tasks springs from the nature of the relationships built up within the membership and from the confidence enjoyed by the elected leaders. They can exercise leadership in getting their members to think objectively about the big economic issues facing agriculture, in particular the adjustment of supply to demand. They can, as a practical step, make a point of avoiding policies that may aggravate over-production of certain commodities, even though such policies may sometimes seem attractive in the short run. Most co-operatives already try to encourage quality production by paying premiums to their members for the higher grades, or penalizing the low ones. When a commodity is in chronic over-supply such regulations can be tightened up, for in many cases it is only the poorer qualities that are in excess of demand. The effectiveness of these measures, at national and international level, depends of course on the proportion of total production accounted for by the members of co-operatives. Where farmer co-operatives have only a modest share of production their efforts cannot make any substantial difference if other producers follow conflicting policies, and the result may merely be to increase the difficulties of the co-operatives.

14. Even where co-operatives are in a position to influence a large proportion of total production, some reserves must be expressed concerning the ways in which they should exert this influence. In advocating production policies to avoid excess supplies, co-operatives must take care not to lay themselves open to the charge of political partisanship. It is also clear that once they start urging their members to take certain management decisions, rather than merely giving them neutral information on which to base their own judgment, co-operatives assume a moral responsibility which may later be translated into a kind of co-management. Some of the implications are discussed in Document AC 3/59, Section A. The choice is an important one and should be made consciously, not imposed by an automatic trend whose significance is overlooked until too late. These are matters for the discretion of co-operative leaders; they should be able to avoid the pitfalls and find appropriate methods to enable farmers to do the utmost in their power toward balancing supply with demand.

15. Turning now to the situation of the developing countries, where large increases in food production are urgently needed, it seems that the scope for co-operative action is a good deal wider. It is always congenial for a farmer organization to urge greater rather than less production. To ask farmers to produce less, or to shift their production, is often regarded by them as the same thing as asking them to accept a smaller income, or to take unknown risks. Many of the small farmers in the developing countries are in such poverty that they have almost nothing to lose; indeed, their only prospect of improved living standards lies in increasing their output, and as this corresponds with the most pressing need of their countries, governments and co-operatives alike can work wholeheartedly to this end.

16. This being so, why has not greater progress been achieved? The answer no doubt is to be found quite simply in the formidable obstacles that stand in the way of this concerted drive. One is illiteracy, shutting off access to written sources of information on the sciences and techniques involved in agricultural

production and marketing. Another is the force of tradition, whose hold necessarily remains strong wherever illiteracy is widespread. Under-nourishment brings not only disease but, more generally, debility and a reduced capacity for physical exertion. Powerful interests flourish by maintaining the farmers in a state of poverty and subjection, and defend their positions stubbornly. The rôle of co-operatives in developing the economies of these countries is discussed in Section B. Here it remains to add a word about the specific aspect of this development with which the present paper is concerned.

17. The co-operative movements in the newly developing countries are largely a creation of governments. This is not to belittle the efforts of enlightened individuals who have sometimes managed to build up admirable co-operatives in the areas where they are influential; but the bulk of the co-operatives have a more or less official character. The reasons for this do not need to be enumerated. As a consequence of their official origin, co-operatives are in many cases regarded as an agency of government and are used as such - primarily in an attempt, direct or indirect, to increase off-farm production. In this case there is no specifically co-operative contribution to the adjustment of supply to demand, but at most the execution by co-operatives of certain features of government policy. This relationship will undoubtedly delay the development of truly independent and self-governing co-operatives; on the other hand, the problems to be solved are of such magnitude that no rapid progress can be expected unless all available forces are thrown into the struggle under a central direction that can only come from the government.

Section B
Document AC 3/59
Appendix I
November 1959
Original: English

IFAP

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

ICA/IFAP JOINT STATEMENT ON PROMOTION
OF CO-OPERATIVES IN THE DEVELOPING COUNTRIES

As a result of recent correspondence and discussion between some representatives of the International Cooperative Alliance and the International Federation of Agricultural Producers concerning possibilities for extending the field of existing collaboration between the two organizations, the following statement on the promotion of co-operatives in the developing countries has been drafted jointly and will be considered in the near future by the respective Executive Committees of ICA and IFAP. The statement is submitted to the Standing Committee on Agricultural Co-operation for any comments that could be of guidance to the Executive Committee in examining methods of achieving closer relationships with ICA, particularly in the field of co-operation in the developing countries.

International Co-operative Alliance
International Federation of Agricultural Producers

Joint Statement on the promotion of co-operatives
in the developing countries

The International Co-operative Alliance (ICA) and the International Federation of Agricultural Producers (IFAP) are convinced that co-operative methods can contribute to the achievement of greater economic efficiency and a consequently higher standard of living for the predominantly rural populations of the developing countries, and thus help to promote harmonious economic and political relations internationally. They therefore consider it essential to work towards the creation of conditions in which the peoples of these countries understand co-operative ideas and methods and take responsibility for applying them to economic and social needs.

At recent congresses and general meetings the two organizations have been guided by similar objectives in examining the possibility of providing educational and kindred forms of technical assistance for the encouragement of co-operation in the developing countries. Both organizations enjoy Category A consultative status with the United Nations and its specialized agencies. They have demonstrated their willingness to contribute wherever possible, by drawing on the experience of their member organizations, to the achievement of the aims of UN technical assistance in co-operation.

Whenever desirable in order to avoid duplication and to achieve greater effectiveness, ICA and IFAP agree to coordinate their activities in the field of agricultural co-operation in the developing countries. As a first step the two organizations request their responsible organs:

1. To discuss planned activities in their preparatory phase at both secretariat and organization level, and to keep each other regularly informed of progress and results obtained;

2. To assist each other in carrying out their respective programs;

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3. To make joint representations to the United Nations and those of its specialized agencies (especially FAO and ILO) concerned with fostering co-operation in developing countries;

4. To organize joint seminars and study courses on co-operation for co-operators from the developing countries;

5. To call attention jointly to those fundamental conditions for co-operative development which must be assured by national governments, such as legislation guaranteeing the right of free association in co-operatives.

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Document P 7/59
4th December 1959
Original: English

ELEVENTH GENERAL CONFERENCE

NEW DELHI, INDIA

CONFERENCE REPORT

The report of the Conference is in five parts:

Introduction

Part I - Towards an international food and farm policy

Part II - For a faster expansion of agricultural production and income in developing countries

Part III - Some specific problems of agriculture in the economically developed countries:

(a) European groups
(b) producers' role in adjusting production
(c) vertical integration

Part IV - Commodity questions

In addition to this report by the Conference, the Secretariat will prepare a brief record of the proceedings of the Policy Committee for inclusion in the printed account of the New Delhi Conference.

INTRODUCTION

1. Three factors determined the trend of policy discussions at the New Delhi General Conference. These were: the current situation of world agriculture; the current trend of government policies in the various international bodies dealing directly or indirectly with agricultural matters; and the fact that for the first time an IFAP General Conference was being held in Asia.

2. For some months, the general world economic situation had been steadily improving; industrial and trade activity was in an ascending phase; most industrial countries had improved their balance of payments and had been able in considerable measure to relax exchange restrictions. The U.S., however, was preoccupied with the size of its growing deficit on current account, a deficit due in part to generous programs of financial and economic assistance to other countries. The feeling was shared by many delegations at the conference that there should be a broader sharing of the financial burden of such programs.

3. World agricultural production continued at high levels, but part of it, especially in the grain sector, did not find its way into consumption channels and contributed to an increase in surplus stocks. In the U.S. some coarse grains had been added to the list of products accumulating under support programs. On the other hand the situation for dairy products had abruptly changed, due mainly to a serious drought in Europe, from one of surplus to one of shortage. The disappearance of the stocks which supplied the international supplementary nutritional programs and those linked with development of local dairy industries was a cause of widespread anxiety. The latter development brought about a better appreciation of the instability of such schemes - when they were entirely based upon short-term surplus disposal operations - and consequent need for longer term planning.

4. Returns on labour and investment in agriculture were still far below those of people engaged in other occupations, a situation particularly critical in developing countries. It remained obvious that the terms of trade of agriculture were still most unfavourable and that the causes of this situation, already discussed in the report of the Purdue Conference, were still present. In particular the rigidity of non-agricultural prices during a recession was one of the most significant features of the last few years and confirmed that the farmer would not easily escape the "price squeeze". Furthermore no real progress was achieved anywhere in the direction of a reduction of the marketing and transport margins. These were absorbing, year after year, a larger proportion of the consumer's expenditure on food.

5. Intergovernmental policies of assistance to developing countries were beginning to take a more promising turn. Additional resources had been made available for the World Bank and International Monetary Fund and an International Development Association was being established. The U.N. Special Fund for Economic Development had started its operations. In the U.N. Economic and Social Council special consideration had been given to commodity problems and, inter alia, to the detrimental effects of price fluctuations on primary producing countries. Although the outcome of the debate had been disappointing it had been recognized that these problems had to be tackled more energetically.

6. In the GATT the special difficulties arising out of the repercussions of national agricultural policies on world trade were under active discussion as well as the means of assuring to developing countries an expansion of profitable outlets for their exports of primary products. At the FAO Conference a set of principles of agricultural price and support policies prepared by a group of experts had been referred to the CCP for consideration in order to ensure their general acceptance. This matter should continue to receive the closest attention of all IFAP members.

7. In FAO, whose Tenth Conference had just been held, a new impulse had been given to the organization's technical activities and an increased budget had been approved. Development was also notable in the number and scope of intergovernmental consultations on specific commodities. The CCP had been instructed

to consider the broader aspects of commodity policies. The Principles and Guiding Lines for Surplus Disposal had been re-endorsed. A greater interest in the Washington Consultative Sub-Committee on Surplus Disposal (CSD) had been evidenced but governments had so far not supported IFAP's proposals for a clearer division of functions between a strengthened CSD responsible for short-term trade problems and the CCP and its subsidiary bodies responsible for the long-term problems. The unanimous approval of the Freedom-from-Hunger Campaign to be conducted through FAO during the next five years, as well as the support given to the Mediterranean Development Project were proof, however, that means could still be found to revive interest in co-ordinated actions on a scale consistent with the magnitude of the tasks ahead.

8. The International Wheat and Sugar Agreements had been re-negotiated and ratified by a larger number of countries and were inducing a degree of stability on the markets of two of the main agricultural products entering world trade. An agreement had also been concluded on coffee, and the International Olive Oil Agreement had been finally ratified by participating countries.

9. There were therefore signs that governments and international organizations were beginning to take a somewhat more practical approach to the world's major food and farm problems.

10. That this was happening was confirmed by the increasing number of those in positions of responsibility who advocated a fresh and bolder attack on the problems of balanced development, primarily as a stimulus to faster economic growth in the developing areas, but also in the interests of more economically advanced countries.

11. This set of circumstances attracted the attention of the Conference all the more as, meeting in Asia for the first time, the problems of that region were constantly brought to the delegates' attention. In this respect the Conference welcomed the many enlightening statements from several prominent statesmen and leaders of the farm and co-operative movement in India. Many of the intricate problems of agricultural expansion were placed in better perspective than ever before and the consultations between members from the West and the East were more complete and more fruitful than at any previous conference. It was possible in particular to recognize that insufficient note had been taken so far of such issues as the need to evolve more efficient means of expanding the exports and stabilizing the prices of those commodities which the developing countries were in a position to offer for sale and which constitute practically their only means of earning foreign currency, while improving the lot of producers in these countries.

12. Although some major problems of agriculture in the economically developed countries seemed no nearer to a solution than in previous years it was felt generally that some progress could be made if countries could be induced to approach them as one aspect of the compelling necessity of ensuring accelerated economic growth and a greater satisfaction of human needs throughout the world.

13. The impact of the development of regional groupings in Europe - European Economic Community and European Free Trade Association - and their relationship with OEEC was reviewed. There was also discussion of the difficulties raised by the spread of contract farming. The scope for a larger degree of producers' control in the adjustment of production to demand was also explored.

PART I

TOWARDS AN INTERNATIONAL FOOD AND FARM POLICY

This section of the Report presents the case for an International Food and Farm Policy. Such a concept should appeal to and stir the imagination of the vast majority of the citizens of the world. On the one hand, the more advanced countries are increasingly beset with the problem of how to adjust food and fibre supplies to effective demand. On the other hand, the majority of the world's population is unable at present to afford even a satisfactory minimum level of nourishment. The long-term aim must be to build up the effective buying power of these peoples. Accordingly, the Conference submits that this can only be done if the nations of the world are prepared to work out and operate together a long-term food development policy. Such a policy must, however, form part of a wider program of world economic development, since other sections of national economies make a major contribution to raising the effective purchasing power of the peoples concerned.

14. For many years, the world has been unsuccessfully trying to resolve the problem of the surpluses of certain key agricultural products. These stocks have accumulated because the effective demand for food and fibre has been less than the supply owing largely to the remarkable increase in farm productivity in the more developed countries.

15. Against the background of poverty and undernourishment of the majority of the world's population, there are no real surpluses. However, in relation to the actual volume of international trade in agricultural products at the present time, these undistributed stocks of food represent a very real problem to the governments and producers in the countries concerned. Thus, wheat producers everywhere cannot overlook the fact that at the end of the 1958/59 Northern Hemisphere marketing season, exporting countries had carry-over stocks of wheat amounting to more than twice the annual commercial requirements of the importing countries. Nor can producers of coarse grains forget that carry-over stocks were at least four times the average annual volume of international trade in recent years. The existence of such stocks inevitably creates uncertainty amongst producers when they should be striving to improve their productivity and incomes.

16. In the more developed countries as elsewhere, there has been a tendency over recent years for the disparity between farm incomes and those in other sectors of the community to widen and this has further aggravated the situation. As technological progress takes place and management practices improve, it becomes increasingly difficult to market the additional output at prices which will provide adequate remuneration for those engaged in agriculture. Nor is it at all feasible to resolve the problem rapidly by seeking to transfer manpower to other occupations without creating problems of structural adjustment.

17. This situation in the more developed countries exists side by side with the need of vast areas of the world to raise the living standards of their peoples. Such improvement is, however, conditional upon a comprehensive development program, requiring first, the necessary planning expertise, secondly, the capital and thirdly, the human resources. It is natural that the developing countries should look for help in the first two respects to the economically advanced nations.

18. To an even greater degree than in the past, the world is becoming aware of the need to assist in the development of the less-developed areas. But the scale of the effort will have to be expanded greatly and as part of a co-ordinated long-term plan if the world's resources are to be used to achieve a general increase in living standards.

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Need for an International Food Policy

19. What has been chiefly lacking so far in intergovernmental efforts to resolve the commodity problem has been a genuine determination to achieve a long-term expansion in demand. Where stocks of a certain product have accumulated in a particular country, the problem of disposal has generally been treated on an ad hoc and bilateral basis with the prospective recipient country. International co-operation, with one or two exceptions, has been confined to consultation in the hope that discussions about policies and programs would help to avoid harm to the commercial interests of third countries. For wheat, sugar, coffee, and olive oil there are international commodity agreements which have brought about a measure of price stability for trade in these products. For other commodities (e.g.cotton, rice, cocoa, rubber, etc.) there are commodity advisory groups which attempt through consultations to secure more stable trading conditions by assisting governments to assess the market outlook. But with the exception of the special nutritional and development schemes affecting certain milk products, there have been no international efforts consciously designed to raise the level of food and fibre consumption.

20. The agricultural producers of the world assembled at the New Delhi Conference of the IFAP are convinced that the time has come for the governments of developed and developing countries to work out and implement together a positive International Food and Farm Policy as part of a wider program of assisting in the progress of the world's less-developed areas. Economically, socially, and politically, a program of this kind would appeal to the world's consumers and to primary producers - who are, incidentally, the majority of the world's consumers.

21. A new world food policy must be conceived as part of a general plan for the expansion of the world economy. With increasing production and incomes, both the volume and the pattern of food demand will improve, though not in proportion. The rate of increase will , however, be greater in the economically less advanced countries.

22. In the more advanced countries, the extent to which they will be able to help the developing countries will be directly related to the rate of increase in their gross national products. Equally, the ability of the under-developed countries to buy more food, as and when required, on a commercial basis will be related to their rate of economic expansion. The more rapid the growth of the national product, the less painful will it be politically in the more advanced countries to secure the necessary resources, and the danger of inflation should thus be substantially lower.

23. The Conference is convinced that it is no longer possible to treat the problem of agricultural surpluses in the narrow context of disposal operations. It is not good enough to supply millions of ill-fed people with surpluses on "once-for-all" basis and then have them return to their previous state of undernourishment. This problem has been encountered in the case of dried skim milk powder, of which surpluses were made available to millions of people in India and other countries. Programs to improve nutritional levels directly, or indirectly through technological advancement, must be conceived on a permanent basis and even though surpluses may be used in the initial phase of a development program, provision must be made for continuity of supply, whether from the resources of the recipient country or from overseas producers.

24. At the same time, it must be recognized that agricultural producers in the more advanced countries can hardly be expected to play their role in providing a continuous and expanding supply of food unless international machinery on the required scale to finance and distribute the food is established beforehand.

25. As part of this machinery, the Conference recommends that food reserves be held in places where they can produce immediate results in remedying local food scarcities and evening out excessive price fluctuations. Recipient countries should be able to finance their drawings from these reserves by mutually agreed financial arrangements.

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26. In order to secure for developing countries the expanding outlets they need for their exportable commodities - which are their main means of obtaining the resources needed to finance their imports, especially of food when required - all conceivable means should be sought to promote and facilitate even through the use of unorthodox methods, a rapid growth of the exchange of primary products on a world basis. To this effect, attention should be paid to the following techniques: bilateral or multilateral barter deals additional to normal trade which do not prejudice the commercial interests of third countries; international schemes for the stockpiling of temporarily unsaleable supplies; purchases at special prices.

27. In the developing countries, great care will have to be taken to ensure that products purchased on concessional terms do not harm the interests of domestic producers. In these countries, by far the biggest proportion of the working population is engaged in agriculture. Any disturbance to the market caused by such sales could well result in depressing the price received by domestic producers, who represent a large section of the community. This would not only reduce their purchasing power but might well result in lowered output in future. By far the largest part of any increase in the demand for food engendered by development programs will have to be satisfied by domestic farmers. Hence it is essential to plan food policy in a way which will improve their ability to increase their own output.

28. Only governments working together with a common objective can plan and supervise the carrying out of the International Food and Farm Policy. If they are willing to accept this responsibility, the question will then arise as to whether it would be necessary to constitute a new international agency to formulate the policy. The Conference believes that this is quite unnecessary and that if governments are willing to undertake the task, existing bodies may well find the work within their current terms of reference. Subject to the agreement of the FAO governing bodies, the FAO Secretariat could undoubtedly undertake the necessary staff work in the formulation of the policy.

29. In order, however, to facilitate the executive action, it may well be necessary to establish appropriate machinery under the auspices of the U.N. to co-ordinate and expand the provision of technical, financial, and economic aid, including the supply of food and agricultural requisites, from the existing international agencies. IFAP should take the earliest opportunity to advocate the need for such machinery before the Economic and Social Council of the U.N.

30. Essentially however it is not a question of new machinery. Rather is it a question of the willingness of governments first to rethink their policies along the line indicated in this section of the Report and secondly, to instruct their representatives at FAO and other relevant intergovernmental agencies to co-operate to the full in the food development program.

31. But the work cannot be left entirely to international bodies. Recipient countries should carefully consider their own development projects and endeavour to assess to what extent, given the right economic climate, the consequent rise in the demand for food could be met from domestic sources. As far as possible, attempts should be made to ensure that supplies acquired on a non-commercial basis do not interfere with the trade either of the domestic producer or of the producer in competing countries. In the economically advanced countries, efforts should be made to ensure that an increasing proportion of the gross national product is made available each year (subject to the limitation of their balance of payments position) to help the developing countries.

32. The issues set out in this paper undoubtedly represent the key agricultural problem in the world to-day. It is a problem which can be resolved only by the adoption of an International Food and Farm Policy. This Policy must be conceived and operated by the governments of developed and developing countries with the full support and co-operation of producers and their agencies. The basic principles which should underlie this policy are set out in Resolution No. 1 of this Conference. All member organizations of IFAP are requested to endorse and commend these proposals to their governments.

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RESOLUTION NO. 2.

FREEDOM-FROM-HUNGER CAMPAIGN

The Conference having received with great interest and appreciation an address by FAO's Director-General, Mr. B.R. Sen, on the Freedom-from-Hunger Campaign, to be launched by his Organization in co-operation with other international governmental and non-governmental organizations during the years 1961-65

Noting that the first and foremost aim of the Campaign was to stimulate and co-ordinate on a national and international basis all efforts tending to assure the necessary expansion of domestic production and not primarily to cover food needs in some areas from excess production in others

Recognizing that this aim should be clearly understood by all and national and international efforts be oriented accordingly

Welcoming particularly the emphasis placed by the name chosen for the Campaign on the fact that fighting hunger and malnutrition is the first duty of governments and communities if the hopes of a global progress towards better living standards for the whole of mankind are to be fulfilled

Believing that it is appropriate to make renewed efforts to awaken the world's conscience to the situation in which large sections of the population in several countries find themselves - namely to the fact that they are currently living on the brink of famine - and to create a current of opinion powerful enough to carry governments along towards concerted action commensurate to needs

Resolved

1. IFAP approves the initiative taken by the Director-General of FAO - endorsed by the Tenth Session of the FAO Conference - and invites him to study the broader concept of IFAP's policy in this respect as outlined at its Eleventh General Conference in New Delhi. It will, as well as its individual member organizations, participate to the fullest possible extent, particularly through the National Campaign Committees to be set up, in those aspects of the Campaign which are relevant to the Federation's aims and objectives as set out in its Constitution.

2. Such participation will include, inter alia, the following:

- informational and educational campaigns through seminars, conferences, publications, broadcasts, etc.

- consultations and co-operation with governmental information and extension services on the technical aspects of the campaign (fertilization, irrigation, seed and breed selection, credit, etc.) in order to assure faster progress of agricultural production

- renewed efforts by farmers' own organizations to provide and/or improve marketing facilities especially in those areas where means of communication are insufficient or non-existent

- international assistance between IFAP members in order to secure the establishment of more numerous and stronger farm organizations in the economically less developed countries, particularly co-operative societies, and to strengthen those already in existence.

3. IFAP's Secretary General is authorized to serve on the Consultative Committee of Non-Governmental Organizations to be established by FAO's Director-General under a Resolution of the Tenth Session of the FAO Conference.

4. The next General Conference of IFAP will consider a progress report on the development of the Campaign both at the governmental and non-governmental level and take such further action as may then appear appropriate.

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PART II

FOR A FASTER EXPANSION OF AGRICULTURAL PRODUCTION AND INCOME IN DEVELOPING COUNTRIES

33. The above discussion on International Commodity Trade and Surplus Utilization centred on some of the big international issues raised by the existence of widely varying degrees of economic development and by the relationship between agricultural expansion and general economic conditions. Under the present heading, therefore, attention was devoted rather to the problems met with at national level in seeking to expand agricultural output and to ensure reasonable returns to agricultural producers.

34. Farming in the developing countries is still largely subsistence farming. In India, for instance, it is estimated that only about one-quarter of food productio goes to market, the rest being consumed by the farm families themselves.

35. Without attempting to analyse systematically the reasons for the existence of subsistence farming on such a scale, it can be safely asserted that inadequate transport, and the consequent rigidity of village institutions, are among the most important. This relative isolation of each small local market - transport sometimes costs 20-25% of the total value of the goods transported - also means that competition among potential buyers for the quantities of produce marketed by the farmers is limited or non-existent. As a result the farmers have little choice but to accept the price offered, however low. In such conditions, aggravated as they are by relatively high costs, there is little incentive for farmers to increase output beyond the low level needed to assure the bare necessities of life.

36. Increased farm output and improved farm incomes seem thus to depend on a gradual transition from a subsistence to a market economy which in turn depends on a better economic climate for the farmer. Some of the main obstacles to this transition need to be discussed at some length.

37. Land tenure systems in many developing countries are unsatisfactory. So long as the cultivator has no real security of occupation he will naturally avoid making any medium- or long-term investment in the land, be loath to modify traditional farming methods, and tend to neglect soil conservation practices.

38. Lack of capital is a characteristic weakness of agriculture even in materially advanced countries. Bigger and quicker returns can usually be obtained from investment in industry. Investment capital is in any case scarce in developing countries and agriculture, as the biggest sector of the economy, is often the main source of finance for expansion in other directions. Moreover the activities of money lenders, excessive distribution margins, and relatively high rents for agricultural land (or in certain countries the exactions of rent collectors) all tend to drain funds out of farming.

39. Illiteracy also puts a serious brake on the transition to more modern farming methods. Those who cannot read, living in isolated places and without radio, are inaccessible to the usual means of influencing opinion and practices. Hence the spread of general education is fundamental to the adoption of modern techniques on a large scale. It should go hand-in-hand with extension work adapted to the social background and technical requirements of the country concerned and closely co-ordinated with the agricultural credit, supply, and marketing co-operatives.

40. Marketing facilities are generally deficient. Without a sufficient number of warehouses for storable commodities, it is impossible to even out supplies over a period and to maintain the quality of the product. Another negative feature is the often excessive number of intermediaries handling the products on their way from the farmer to the consumer and raising the price unreasonably. If increased consumer demand is to have its full effect as an incentive to the farmer to produce more, these margins must be considerably reduced.

41. Mechanisation is another subject worthy of detailed study. In countries with abundant labour supplies in agriculture and insufficient possibilities of alternative

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employment, it might be preferable not to concentrate too exclusively on mechanisation and to give greater attention instead to the provision of fertilizers and improved strains of seeds. On the other hand, certain farm operations - deep ploughing, for instance - can only be performed by machinery, while the rapidity of mechanized cultivation and harvesting may be decisive at times of bad weather or of seasonally heavy demand on the regular labour force.

42. The use of co-operative methods in agricultural production was held by the Standing Committee on Agricultural Co-operation to be, when the conditions for success are present, one means of increasing output and raising the standard of living of those occupied on the land. Since the subject is one that requires further study the Conference decided that the matter should be referred back to the Standing Committee on Agricultural Co-operation for further consideration at its next sessions.

43. As a general comment on the situation in the developing countries it is appropriate to emphasize the role of the farmers' own organizations, both co-operative and general. Co-operatives in particular could help to clean up market conditions, eliminating or neutralizing speculators and unnecessary middlemen, providing fuller and more accurate knowledge of markets, and opening up sources of credit that make the farmer independent of the money-lender. Close and perhaps organic links between credit, marketing, and supply co-operatives are advocated, since otherwise much credit is wasted on unproductive purposes, while the services of the marketing and supply co-operatives are insufficiently used.

44. If farmers have a duty to work for the betterment of rural conditions through their own organizations, the stage has not yet been reached in developing countries where many such organizations grow up spontaneously. Government aid in creating favourable conditions for their growth is welcomed on condition that the aid is given in ways that do not interfere with independent management and policy formation by the members of the co-operatives, and which encourage members to take over progressively greater responsibility for the affairs of their co-operatives. Neither government nor farmers should rest satisfied with a long period of government tutelage of co-operatives.

45. The role of the State in promoting a balanced economic expansion in the developing countries is necessarily predominant at the present stage, particularly in connection with the vast and unremunerative investments needed to provide an adequate infrastructure of roads, ports, schools etc. But as development progresses and as farmers gain experience in the responsible and democratic management of their own co-operatives, these co-operatives should be able to discharge a number of tasks in the field of agriculture that are presently the concern of government or of commercial interests.

46. The delegation of Ghana made a number of proposals for action by IFAP :

(a) <u>To encourage, together with FAO, the formation of strong national farmer organizations in Africa and Asia</u>.

FAO has set up an African Regional Office in Accra, and has also established a liaison office with the Economic Commission for Africa of the United Nations in Addis Abbeba. IFAP is in regular consultation with FAO, and will take every opportunity to aid in strengthening national farmer organizations in African and Asian countries and to facilitate the creation of such organizations where they do not already exist. Moreover FAO is organizing, in collaboration with the Danish Government, a seminar for the training of farm leaders in a number of developing countries, mainly in the Near East. IFAP has been invited to participate actively in the planning and running of the seminar, and hopes that the idea will be extended, under FAO auspices, to other developing areas.

(b) <u>To set up a regional office of IFAP for Asia and Africa and committees for these two continents</u>.

While IFAP cannot at present envisage the creation of a new regional office, the purposes of the proposal could perhaps be met to some extent by the appointment to IFAP staff of a specialist on

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Asian and African agricultural problems. This would, however, involve additional financing and the matter must therefore be dealt with by the Constitution and Membership Committee at the earliest opportunity. Regional Committees for Asia and/or Africa should be set up as soon as possible.

(c) To state that a measure of tariff protection is necessary for the growth of the developing economies.

The Conference accepted the principle of this recommendation on the understanding that discussions are under way between the contracting parties to GATT and that it will be possible to reach an agreement.

PART III

SOME SPECIFIC PROBLEMS OF AGRICULTURE IN THE ECONOMICALLY DEVELOPED COUNTRIES

A - European groups

47. The Conference received and welcomed the report of the European Regional Committee which described the work of the OEEC, developments in the European Economic Community and events leading up to the formation of a European Free Trade Association (EFTA) comprising seven countries.

48. The Conference commended IFAP's European Committee for its efforts to achieve general co-operation in the sphere of European agriculture. It also underlined the importance of IFAP's European Committee as a forum where representatives of European farm organizations could exchange views on developments arising from the implementation of the Rome Treaty and the Stockholm Convention. This exchange of views had been most useful to date and should be extended in future by still closer contacts to be established with the Comite des Organisations Professionnelles Agricoles (COPA), the European Economic Commission, and any similar machinery which might be established by the EFTA.

49. The Conference asked the European Committee in its work during the coming year to intensify its efforts to achieve a European agricultural agreement as part of a wider European Economic Association.

50. The Conference also asked the European Committee to work closely with the OEEC in attempting to reach a satisfactory solution of these problems.

51. Finally, the Conference fully expected European farm organizations to continue to keep in mind the necessity always to consider their problems in the broader context of world economy.

B - Adjustment of Agricultural Production to demand

52. The Conference discussed the problems of world agriculture from the standpoint of adjustment of supply to demand. The meeting had before it a Secretariat document reviewing the basic causes of the imbalance existing in grain production and demand and later/in some other major commodities. In this document the following propositions were put forward. These were in the nature of assessments of the position, not of direct recommendations as to what adjustments in production are necessary.

(i) That, in grain at least, examination of the prospective commercial demand, physical limitations to non-commercial utilization, and financial limitations resulting from the governments reluctance to finance such utilization, indicate for the next ten years that the pressure for downward adjustment of production will be very nearly irresistible.

(ii) That, while effective demand for high quality and more expensive foods will increase substantially in the next decade in some industrialized countries, indicating considerable scope for adjustment of production as between commodities, this expansion will not be sufficient to counteract the pressures indicated above.

(iii) That in developing countries the problem remains one of expansion of production to meet unfilled and growing needs; over-expansion in relation to demand arises in industrialized nations and only because the necessary international machinery and policy needed to move supplies into consumption was not established in good time - i.e., at the end of World War II.

(iv) That if downward adjustment is necessary it must be achieved: (a) through national policies, (b) with producer co-operation and through national farm organizations and producer marketing organizations, allied with government action, (c) without abandoning programs designed to protect the producer prices and incomes and (d) international co-ordination and agreement in order to prevent adjustment in one country from being offset by expansion or failure to adjust in another.

53. The discussion in the Conference was largely devoted to the possible implications of the Secretariat report for IFAP. It was first of all emphasized and very clearly established that judgements which might be made as to the limits of future effective commercial demand, or of non-commercial distribution, in no way implied that production might exceed actual human needs for food in the world, since such an eventuality is not in sight. Rather such judgements served only to highlight the alternatives open to farmers and to nations, and the conditions for full utilization of the world's food production capacity. Pressure for downward adjustment of production will be lessened if imagination is shwon in seizing the opportunities for increased utilization offered by improvement of international aid and development programs, creation of reserves, and economic growth of developing areas. These potentialities are discussed in preceding sections of this report and are underlined in the Inaternational Food and Farm Policy adopted by the Conference.

54. In the course of the discussion the following points were brought out:

(a) IFAP must take cognizance of the prospective build up of surpluses and the resulting needs for adjustment of production to demand that this presents.

(b) In view of the world's need for foodstuffs, curtailment of production is something that should if at all possible be avoided. However, it must be recognized that production in some industrialized countries is over-extended in relation to prospective commercial markets and the existing physical potential for non-commercial distribution. It is over-extended in relation also to present and prospective government programs of aid and development involving non-commercial utilization of production. The extent to which food production potential is utilized clearly depends upon the willingness of people to tax themselves in order to provide the funds necessary both to pay for non-commercial food distribution and to stimulate the basic economic development of under-developed countries, without which it is impossible to expand demand and even to solve the physical problems of distribution.

(c) Producers and their organizations must recognize the extent to which national policies may be responsible for creation of the conditions that have led to the agricultural imbalance, and must examine critically the effects that policies of production expansion may have in some cases on net farm income, and whether unrealized possibilities exist for safeguarding the income position of individual farmers by programs of adjustment.

(d) In considering the need for an orderly international organization of markets the continuing need for adjustment in relation to the changing competitive position of various suppliers should be taken into consideration.

(e) In those countries where upward adjustment is the great need, the role of co-operatives in the better organization of agricultural production among family holdings should be particularly considered.

(f) There is always a danger of taking too rigid a position with respect either to the need for expansion or restriction and emphasis should be laid on better understanding the situations and the alternatives, which face producers from time to time.

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(g) Farm organizations of each country should give increased attention to the financial implications of international programs designed to expand non-commercial use of agriculture's potential and to present the issues, to their governments.

(h) That, such products as pork, beef, poultry, fruits, vegetables and secondary seed and grains offer the greater possibility for producer action to adjust through their organizations, production to demand.

C - Vertical Integration

55. Both the North American and the European Regional Committees had given some attention to this subject during the past year (1)

56. Vertical integration is one aspect of the complex technological revolution taking place in agricultural supply and marketing. It includes in turn those recent developments, seen mainly in North America, that are known as contract farming. This aims at achieving integration between the production of grain-fed animals (mainly hogs and poultry) and their processing, distribution, and retailing. A significant feature is that production can be considerably expanded without any increase in the area of land used(differing in this respect from crop production, in which the use of contracts between producer and processor - e.g. sugar factory, cannery - is of long standing in many countries). Contract farming is having far reaching effects in North America and its wider implications for agriculture must be carefully examined. It would be wise for farmers there and elsewhere to recognise that the present period of rapid technological change may at any time modify or even disrupt the basis of agricultural production and marketing. Farmers, through their own organizations, must be awake to innovations in agricultural production and marketing, and adjust their methods as quickly as possible to new demands.

57. It is recognized that vertical integration is an irreversible trend in modern agriculture, as in all other sectors of the economy. By facilitating the use of advanced techniques it can lower unit costs of production - though monopolistic tendencies often prevent the consumer from receiving the benefit. The question, therefore, is not whether vertical integration in agriculture has come to stay, but how and by whom the process is to be controlled.

58. Contract farming can have some attraction for the farmer, particularly if he lacks capital and technical knowledge and sets most store by a certain minimum security in the marketing of his product. Private integrators do provide those things in varying degrees and combinations, and for the limited duration of the contract (generally one year). But it must be added that there is a tendency for contracts to become progressively more unfavourable for the farmer, reflecting his increased dependence on the integrator and his consequently weakened bargaining position.

59. It follows that farmers must not allow themselves to be passively integrated by private business concerns in which they have no voice, but must retain some control over the process through their own organizations,particularly co-operatives. Otherwise it may not be long before farmers find themselves

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(1) In addition to their reports, discussion was facilitated by Secretariat documents AC 3/59 Section A and Appendix A, and by part of the report of the Session of the Standing Committee on Agricultural Co-operation (AC 4/59) held in New Delhi a few days earlier. The conclusions stated in paragraphs 9-20 inc. of AC 4/59 were widely accepted.

facing a market that consists of a very few, virtually all-powerful buyers.

60. Various courses are open to farmer organizations. They can scrutinize proposed contracts before signature by the farmers or draw up model contracts for thei guidance; or they can increase the bargaining power of farmers by signing an over-all contract on their behalf with the integrating concern. Farmer co-operatives may go further and themselves contract with members, though here care must be taken to avoid discrimination between different categories of members. Many other forms of integration can be practised by farmer co-operatives and other producer organizations, whose sound and balanced development is the best safegua for farmers in the face of the enormous accumulation of capital backing the largescale integrators.

61. Co-operatives can, and often do, provide most of the services associated with contract farming by private interests. The competitive strength of the cooperatives is dependent to a large extent on the solidarity of members and on their understanding of the iszues involved. Unless farmers are prepared to forego voluntarily a measure of freedom of action in order to make their co-operatives more efficient, a much more severe control may be exercised by commercial enterprises which do not necessarily have the long term interests of agriculture at heart.

PART IV

COMMODITY QUESTIONS

RESOLUTION NO.3

WHEAT

A most serious gap exists in the case of wheat between output available for export and the present world commercial and non-commercial demand. Present levels of production suggest a continued heavy build-up of stocks unless non-commercial utilization is greatly expanded. Virtually all national governments are involved in wheat production, pricing and trade policies. On the basis of present information and programs, there are indications that in response to adjustments in national policies in various countries, some reduction in output may occur. Finally, wheat is one of the two or three classes of commodities that lend themselves to international policies aimed at moving food to supplement the diets of underfed peoples. IFAP therefore:

1. Welcomes the renewal of the International Wheat Agreement as an essential prerequisite of orderly international trade in wheat and also welcomes the expanded participation of major trading countries.

2. Welcomes the extension of the International Wheat Council's responsibilities to include an active review and consultation on wheat problems, and urges all governments concerned fully to co-operate in making the work of the Council effective.

3. Welcomes the initiative of major exporters in forming an International Wheat Utilization Committee with broad responsibilities for facilitating expanded consumption of wheat.

4. Emphasizes the critical role of wheat in world food policy and urges careful attention to the need for co-ordinating and mutually strengthening the activities of the intergovernmental bodies and agencies concerned and particularly of the FAO as the international agency primarily and comprehensively concerned with world food and agriculture policy and progress.

5. Urges on governments the need to arrange for:

(i) the joint international provision of funds for financing expanded non-commercial demand for wheat as part of an adequate international food and farm policy, and

(ii) an improvement in the means of achieving a general exchange of agricultural commodities between developed and under-developed countries if commercial as well as non-commercial distribution ~~of wheat~~ is to be maximized.

6. Urges intergovernmental bodies dealing with commodity problems, and notably the FAO group on grains, to pay greater attention to the close links between the problems of bread grains and coarse grains, particularly as both are at present in excess supply in some important producing countries and can be used to the benefit of developing economies.

DAIRY PRODUCTS

62. The market situation and outlook for butter, cheese, and skim milk powder were briefly reviewed.

63. While the butter market is at present relatively stable, after a marked recovery from 1958, there are many uncertain factors in the situation which indicate the probability of renewed fluctuations. Technological progress in particular may alter the situation unpredictably. The interest of producers in stable demand is emphasized and for this reason it is important to avoid prices that discourage consumption of butter.

64. The cheese market is generally satisfactory and there are no signs of a worsening in the near future.

65. Great concern was expressed at the serious consequences of the sudden disappearance of stocks of skim milk powder, for both welfare and technical development programs based on the use of skim milk powder in the economically less advanced countries. Effective action in these fields is conditional on regular availability of supplies and long-term planning. A resolution on this subject is appended.

66. In the over-all debate on dairy products, reference was made to the action of the three Farmers' Unions of the United Kingdom in submitting to the British Government a draft scheme for stabilizing international trade in butter. Details of this plan were before the Policy Committee (Addendum to Appendix B of Document P5/59).

67. In introducing the proposal, the British delegation explained that they had wished to focus discussion of the butter problem on a concrete plan for achieving a measure of price stability in the interests alike of producers and consumers. The plan had envisaged the establishment of an International Butter Marketing Council which would have three principal functions:

(a) short-term appraisal of the butter market;

(b) examination of long-term national milk and butter production policies; and

(c) avoidance of excessive fluctuations in butter prices.

The Farmers' Unions, however, were prepared to examine any proposal which would best achieve the objectives as set out in Section A(i) and (ii) of their paper*. Progress would be made if governments were to set up an International Dairy Products Council to meet periodically during the year to appraise the current and prospective market outlook and to guide milk producers and their marketing agencies in exporting and importing countries accordingly.

68. The Conference while welcoming the objective of stabilizing trade in butter, considered that the United Kingdom proposals would have to be carefully examined by producer organizations in the countries mainly concerned before any general recommendations were made and for this purpose the Conference recommends that:

(a) ~~as the two main objectives outlined in the proposals of the United~~ Kingdom Farmers' Union deserve the fullest consideration, the Unions in the light of the Policy Committee's discussion should circulate amended proposals to member organizations in all countries interested in the trade in dairy products;

(b) these organizations should be invited to submit their comments within a stated period to the Unions; and

(c) in the event of these views being favourable to further discussion of the proposals, the Unions, after consultation with the IFAP Secretariat, should decide whether to convene a special conference of dairy producers for that purpose.

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*(i) "To stabilize butter prices within an agreed range."
(ii) "To protect importing countries against an excessive increase in price and exporting countries against an excessive fall."

RESOLUTION NO.4

MILK POWDER

Having noted the current unexpected disappearance of surplus stocks of dried milk; the seriousness of this development to the 35 million infants, children, and mothers benefiting from the supplement to inadequate diets that non-commercial distribution of stocks is providing, and to newly established dairy industries of the developing countries where dried skim milk powder is a necessary component of the liquid milk treated in "toning" plants; the inadequacy and instability of an international program of better nutrition depending on the periodic and haphazard accumulation of surplus stocks;

THE CONFERENCE RESOLVES that the governments represented in FAO should take steps to initiate plans with the object of establishing a reasonably long-term international program for non-commercial availability of dried milk, financed on a regular basis from a fund to which all countries having the ability to do so should contribute according to a pre-agreed plan. The use of this fund should be subject to an international program including the formulation of priorities.