Major U.S. Farm Export Markets Shift

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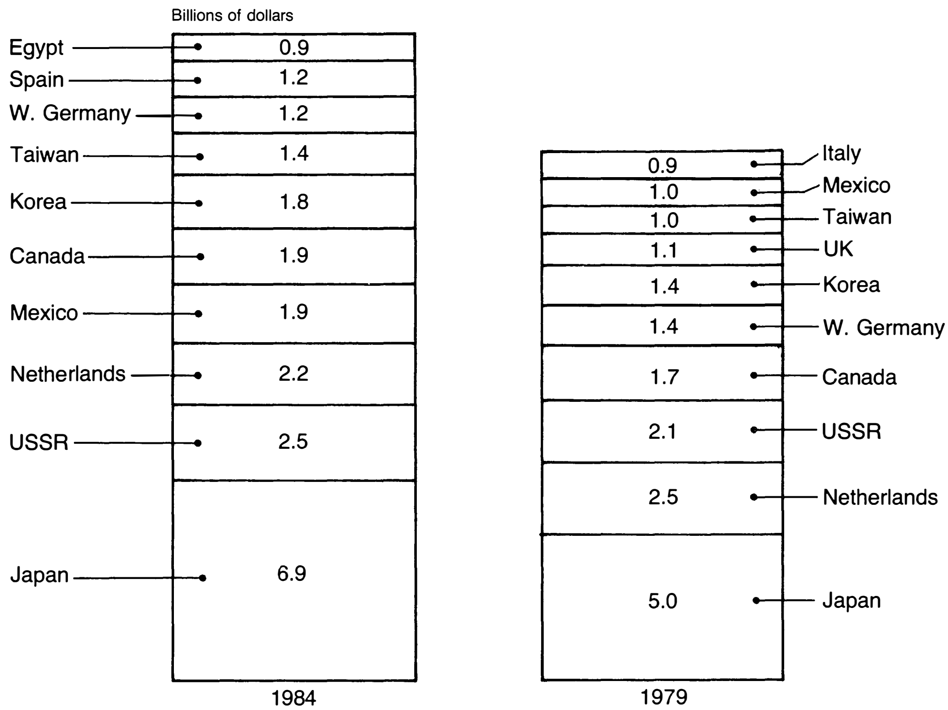
Just 10 countries bought nearly 60 percent of the $38 billion worth of U.S. agricultural exports in fiscal 1984. The top 10 customers accounted for about 80 percent of U.S. feed grain sales, by value, and more than 60 percent of U.S. wheat sales.

Most of the buyers were also at the top of the list 5 years earlier, with a few exceptions and shifts in position (*figure 1*). In 1979, the United Kingdom and Italy were among the top 10. By 1984, they were replaced by Egypt and Spain. Mexico, Korea, and Taiwan also increased their shares.

The European Community (EC) is typical of developed countries that have decreased their purchases of U.S. products. Developed countries' share of U.S. exports fell from 55 percent in 1979 to 50 percent in 1984. Developing countries' share, however, reached 39 percent, a 5-percentage-point increase since 1979.

Figure 1. Few Changes in Top U.S. Farm Export Customers Since 1979



Total, top 10 = $22.2 bil.
Total, all farm exports = $38.0 bil.

Total, top 10 = $18.0 bil.
Total, all farm exports = $32.0 bil.

Fiscal years. Numbers may not add to total due to rounding.

East Buys West

Japan has been the largest customer for U.S. agricultural products since 1963. Not only is Japan's share of U.S. agricultural exports more than twice as large as any other country's, but it is consistently in that position (*figure 2*).

Japan accounts for 20-30 percent of U.S. fruit, soybean, tobacco, cotton, and feed grain exports. Feed grains alone account for over 33 percent of the value of U.S. exports to Japan.

Japan's rising incomes are increasing demand for poultry and red meat. The growing livestock sector currently imports 70 percent of its feed. Increased demand and the absence of import duties boosted U.S. feed grain exports to Japan 37 percent between 1979 and 1984, with most of the increase coming in 1980. Since 1980, U.S. feed grain exports have fluctuated, with no positive trend.

Japan's agricultural policies stress food production and security, but the country's arable land area is small—only about 1 percent of U.S. farmland. As a result, emphasis on the traditionally important rice crop, as well as vegetables, has meant only limited production of other foods. Only 2 percent of Japan's coarse grain consumption, for example, comes from domestic production.

Like Japan, Korea, and Taiwan have limited land and share a tradition and preference for rice. Though less developed than Japan, they are industrializing and have shown strong income growth and increased meat consumption since the 1970's. Expanded livestock numbers have meant increased imports of coarse grains and oilseeds for animal feeds.

Feed grains and oilseeds comprise about 60 percent of the U.S. farm exports to Taiwan and 40 percent to Korea. Japan, Taiwan, and Korea bought 40 percent of total U.S. feed grain exports, compared to 27 percent in 1979. Their share of U.S. soybean exports totaled 33 percent in 1984, up from 28 percent in 1979. The three countries also imported about one-half of all U.S. cotton exports last year and a quarter of all tobacco, about the same as 5 years earlier. From 1979 to 1984, the amount of U.S. agricultural exports going to these countries as a share

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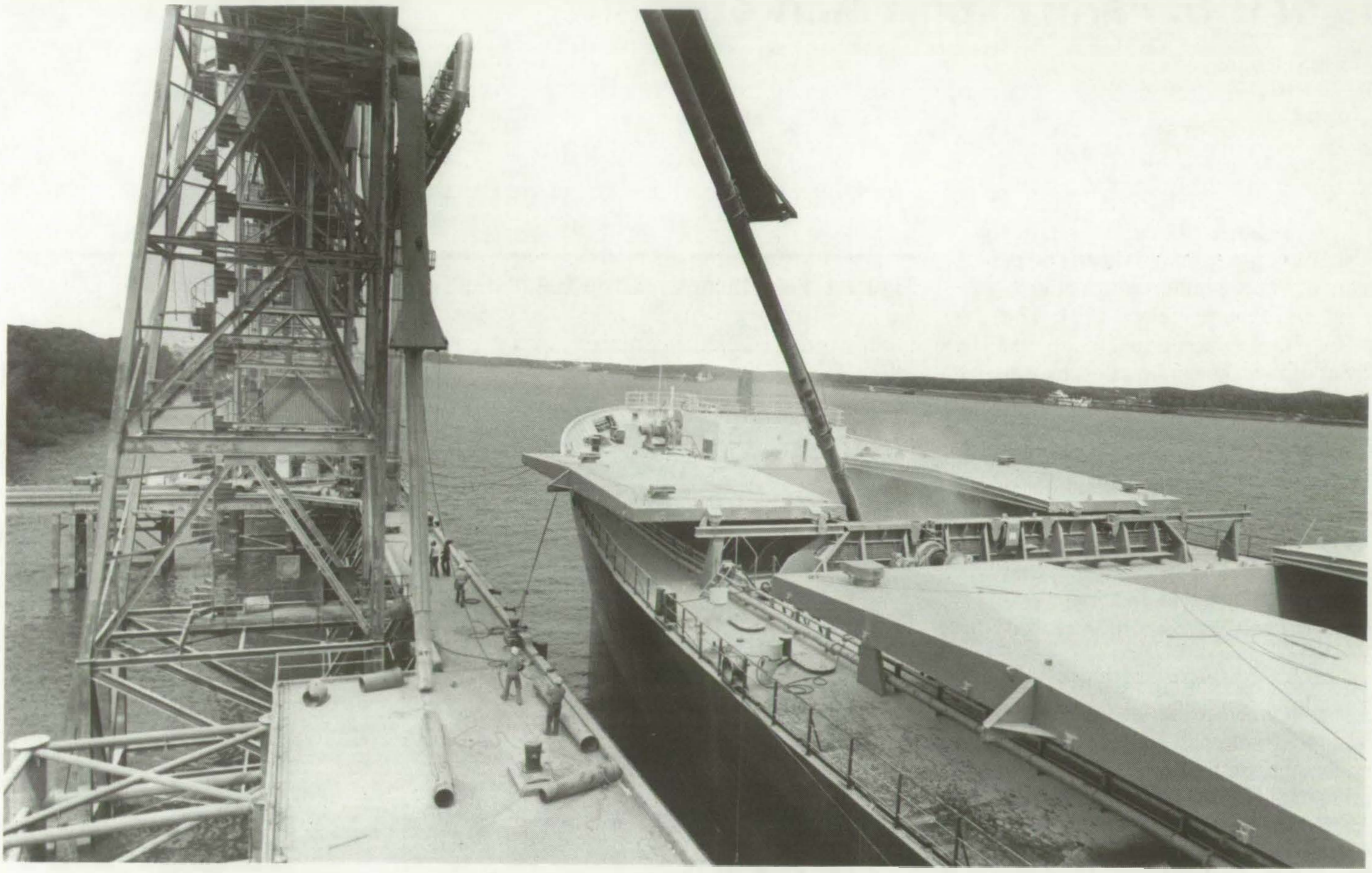


By value, about 80 percent of U.S. feed grain exports and more than 60 percent of wheat sales went to our 10 top customers in 1984.

of all agricultural exports rose from 23 to 27 percent, with wheat the only major commodity declining.

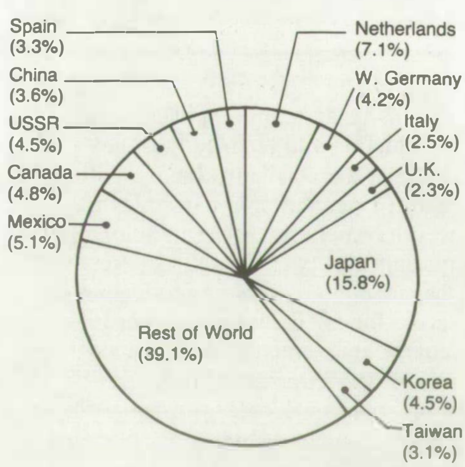
EC Members Buy Less

The share of agricultural exports going to our major EC customers, the Netherlands, West Germany, the United Kingdom, and Italy, fell from 18 to 13 percent during 1979-84. While shipments to the Netherlands, the largest EC customer, declined only marginally, exports to the United Kingdom fell 27 percent. Italy and West Germany bought substantially less U.S. agricultural exports.

The partial loss of the market is in part a function of the EC's Common Agricultural Policy. The policy attempts to ensure fair standards of living for farmers, and stable, secure, and reasonably priced food for consumers.

The Common Agricultural Policy sets

Figure 2. Japan: Number One Buyer of U.S. Farm Exports[1]



[1]Cumulative Exports, 1980 to 1984.

Community prices generally above world prices. Before 1979, the EC's high grain prices led to a boom in nongrain feed imports such as manioc, corn gluten, and oilseeds. Output of the feed compounding industry doubled in the 1960's and 1970's. By 1979, the Netherlands, West Germany, the United Kingdom, and Italy purchased 62 percent of U.S. exports of feed and fodder (excluding oilcake), and over a third of our soybean exports.

Oilseeds currently comprise the largest share of U.S. exports to the four major EC buyers, outselling grains 4 to 1 in value. This trend reflects Europe's need for high protein feeds, high domestic grain prices, and the absence of import levies on oilseeds and products and other nongrain feeds.

In addition, the Netherlands and West Germany purchase feed because their livestock sectors are larger than their crop sectors. Both nations are significant milk producers and, therefore, heavy users of feed.

Recession Cuts Imports of Feed Grains and Soybeans

EC economic growth has slowed to an annual rate of about 1 percent. Meanwhile, the Common Agricultural Policy's high farm prices have provided incentives to continue increasing production. As a result, agricultural self-sufficiency has increased, reducing the EC's reliance on imports.

The EC has encouraged oilseed production through increased support prices for sunflower seed and rapeseed. As a result, production of these commodities doubled between 1979 and 1984, partially displacing soybean meal. Import quotas on manioc, a soybean meal complement, further constrained consumption. Between 1979 and 1984, purchases of U.S. oilseeds and products by the Netherlands, West Germany, the United Kingdom, and Italy fell $600 million to $2.1 billion, declining $500 million for soybeans alone. U.S. feed grain exports showed similar declines.

To encourage feeding of domestically produced grains, the EC has subsidized the use of wheat for feed. During the last year, the EC has allowed market prices of grain to fall below the levels at which purchases are made to support farm prices. Minimum import prices for corn were also raised quickly to increase the price competitiveness of domestically produced grain.

Europe's relative economic stagnation and growing unemployment during 1979-84 restrained meat demand, and livestock production rose only slightly. Meanwhile, EC barley and wheat production increased rapidly. Barley replaced corn as the most important component of feed grain consumption, while wheat feeding rose 80 percent and the Community became a net exporter of grains. As a result, EC coarse grain imports fell more than twice as fast as consumption from 1979 to 1984, and imports from the United States fell more than four times as fast.

In 1984, the Netherlands, West Germany, the United Kingdom, and Italy bought 3 percent of U.S. grain exports, down from 8 percent 5 years earlier. They also accounted for 24 percent of the value of all oilseeds and products, compared with 31 percent in 1979. Feed grains and oilseeds in 1979 comprised 60 percent of U.S. export value to the four countries, but only 47 percent in 1984. The share of other feeds and fodders (mostly corn gluten) doubled to 16 percent and represented one of the few increases. Cotton and horticultural goods were the only other increases and together accounted for only 8 percent.

China Feeds Its Own

China is an important U.S. agricultural customer, despite its comparatively sporadic purchases from the United States. China contains one-quarter of the world's population and has tremendous potential for consumption and production.

Trade with the United States developed as tensions eased in the 1970's, and it blossomed in the early 1980's when Chinese domestic policy encouraged imports. China was the fourth largest customer for U.S. agricultural exports in 1980. The following year, China ranked fifth and was the largest customer for U.S. wheat. On a cumulative purchase basis from 1980 to 1984, China was our eighth largest market.

In recent years, China's production capability has grown, and domestic products have replaced some imports. A 50-percent rise in government procurement prices and other policy changes have boosted Chinese agricultural output nearly 50 percent since 1979. Record crops have given China self-sufficiency in several important U.S. export commodities.

Cotton and corn accounted for over one-half of U.S. farm exports to China in 1979, but China is now a competing exporter of these products, as well as soybeans. Although wheat production has also reached record levels, transportation problems hamper movement of grain between provinces so imports continue. Wheat accounted for 97 percent of U.S. farm export value to China in 1984.

The United States recently has been the main wheat supplier, though its share has fluctuated from 60 to 21 percent in the last 5 years. Cattle hides are the second largest U.S. export to China. Hide exports have risen since 1979, although they have not come close to offsetting declines in other commodities. U.S. agricultural exports to China peaked at $2.2 billion in 1981 and were $692 million in 1984.

Mexican Purchases Increase

In contrast to China's decreasing importance as a U.S. customer, Mexico's steadily increased. On a cumulative basis, it ranked third for 1980-84, compared with ninth for 1975-79. Like many developing countries, it has seen years of burgeoning population and lagging agricultural production. Recently, there has been a strong rise in petroleum production. Mexico is the world's fourth largest producer of crude oil. Income rose with

China remains a major customer for U.S. agricultural exports, but dramatic gains in its farm production have cut sales by two-thirds from the 1981 peak.

the oil boom, but food output has continued to lag. Since 1980, Mexico's agricultural imports have exceeded farm exports.

The United States is both Mexico's largest agricultural customer and its largest supplier. The U.S. share of Mexico's farm imports stood at 65 percent at the start of Mexico's recent financial crisis in 1982. U.S. farm exports to Mexico declined from $2.4 billion in 1981 to $1.2 billion in 1982, but increased in 1983 in part due to extensive export credit guarantees. In 1984, the Mexican economy and agricultural production grew modestly, and the need for credit guarantees fell to about one-half of 1983's $1.3 billion. Total agricultural exports to Mexico rose 19 percent from 1983.

Corn, the largest U.S. export to Mexico, is used primarily as a food. Feeds, such as sorghum and oilseeds, are also important exports but, unlike corn, they often face competition from other suppliers, including Argentina and Australia.

About 40 percent of the total value of U.S. agricultural exports to Mexico consists of food products for direct human consumption. The food share exceeds the four EC and three Asian countries' share and is indicative of the state of Mexico's economic development. Less developed countries' farm imports from the United States tend to be over 50 percent food, compared with under 30 percent for the developed world.

Supplying Other Nations

Of the major U.S. markets, Egypt is the only nation that imports more food than nonfood. The largest export to Egypt is wheat. Egypt's wheat imports from the United States and other sources have grown steadily since the 1960's. Egypt's agricultural land is severely limited and production lagged while population, particularly in urban areas, boomed. Additionally, subsidized bread has long been available to urban consumers and has become widespread in rural areas as well since 1979.

The United States is the country's largest wheat and flour supplier, but Egypt imports from most other major exporters as well. Cooking oil is another subsidized commodity, and animal fat and vegetable oil rank among the most important U.S. exports to Egypt.

The Soviet Union was the second largest U.S. market in 1984. On a cumulative basis over the last 5 years, it was sixth. While this low ranking is in part due to the U.S. grain embargo, the USSR also ranked sixth for the 5 years preceding 1980.

Not only do total U.S. exports to the Soviets vary, but the composition of these exports fluctuates. In 1979, wheat accounted for only 26 percent of our exports to the Soviets; in 1984, it reached 47 percent as the Soviets sought large quantities of grain to cover the serious domestic shortfall. U.S. exports vary with fluctuations in grain production and changes in Soviet economic and political priorities.

Canada stands as the most important competitor among our major customers, consistently exporting large quantities of wheat and barley. Despite the country's status as a major feed exporter, close ties and ease of transportation make large U.S. exports of corn and oilseeds to eastern Canada possible. But the largest portion—40 percent—of its U.S. farm imports are horticultural products, and Canada accounted for about one-third of all U.S. fruit and vegetable exports and 14 percent of our meat exports in 1984. □