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Trade and U.S. Agriculture

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The world exported about \$230 billion in agricultural commodities last year. The U.S. exported \$39.1 billion while importing \$15.4 billion, leaving an estimated \$23.7 billion agricultural trade surplus during fiscal year 1982 (October 1981-September 1982) (table 1). This trade surplus has meant that U.S. farm product exports have helped limit the trade deficit incurred by purchases of other foreign products, such as oil and cars.

Foreign demand for U.S. agricultural commodities benefits income and employment throughout the country. The annual value of business activity for processing, internal transportation, and other services associated with exporting farm products has averaged \$35 to \$40 billion in recent years. An estimated 1 million jobs are generated directly by farm production for export, with over half off farms.

Increased demand through exports encourages farmers to use technological advances in seeds, machinery, and other inputs. The resulting gains in efficiency may hold down farm production costs, and subsequently food, feed, and fiber prices.

U.S. agricultural exports also serve humanitarian and political interests. Since 1954, 300 million metric tons (mmt) of food aid have been shipped through Public Law 480 to developing countries to provide emergency disaster relief, long-term assistance, and to improve nutrition. The shipments help improve health conditions, economic and political situations

abroad, U.S. foreign relations, and expand commercial export markets. This aid program accounts for under 5 percent of the value of U.S. farm exports annually, with the rest handled as commercial sales by private traders. (*The impact of exports on the economy and aid shipments are detailed in related articles in this issue of the National Food Review.*)

Agricultural trade is sensitive to a variety of economic, political, and social variables, including growing populations; changing inflation, interest and exchange rates; fluctuating oil and farm commodity prices; and Government actions geared toward protecting domestic agricultural markets.

Factors Affecting Exports

In recent years, American agriculture has faced huge surpluses of major commodities, low prices, depressed world demand, restrictions in some import markets, the lingering effects of the 1980 Soviet grain embargo, and a strong dollar against the currencies of many of our import markets. A number of international issues, including foreign trade barriers, long-term sales agreements, and financial policies have also affected U.S. exports.

Countries restrict imports for a variety of reasons. In the low-income countries, for example, limits on imports save foreign exchange and may encourage domestic agricultural production. The European Community (EC) and Japan are major markets which restrict imports to protect their agricultural sectors. The EC, for example, supports domestic grain

prices at a level sharply higher than world prices. To keep its wheat and barley competitive, the EC uses a variable levy system to impose charges on imported grain until the price is at least as high as EC-produced grain. During the past year, the levy has been around \$100 per ton on U.S. wheat and \$75 per ton on corn. This system reduces demand for U.S. grains and promotes EC production above what market forces would dictate. USDA estimates that if 10 years ago the EC had abolished its variable levy system and the price support levels set in its Common Agricultural Policy, it would have imported 11-12 mmt of grain in 1980, compared with actual net exports of 3.8 mmt. Much of those imports would have been from the United States. Lower grain prices would have increased meat production and reduced prices. Additional imports may have been needed, however, to handle the resulting higher demand for meat.

On the other hand, current EC policies do benefit U.S. soybean and corn gluten exports which have no levy and make cheaper animal feed than grains. However, on balance, U.S. agricultural exports are estimated to have been \$4 to \$7 billion per year lower in 1980-83 because of EC policies.

Japan also restricts access of various U.S. products, especially meats and citrus, to support its domestic production and enhance farm income.

Long-term trade agreements (LTA) involving significant volumes of agricultural exports are relatively new. The USSR became a major U.S. grain market during the last decade, but annual import needs varied considerably. In 1976, a 5-year grain agreement with the USSR provided for minimum annual purchases of 6 to 8 mmt of U.S. wheat and corn from private companies at market prices. The value of an LTA to both the importing and exporting countries is a guaranteed volume of trade. Even during the 1980 embargo, for example, the Soviets were allowed to import the specified minimum level of grain.

A new 5-year LTA, effective October 1, 1983, provides for annual

Table 1.—U.S. Agricultural Trade, Fiscal 1978-83

Item	1978	1979	1980	1981	1982	1983 forecast
Billion dollars						
Exports	27.29	31.98	40.48	43.78	39.09	34.5
Imports	13.89	16.19	17.27	17.22	15.35	16.2
Trade balance	13.40	15.79	23.21	26.56	23.74	18.3
Million metric tons						
Export volume	131.3	137.4	163.9	162.3	158.1	143.5

minimum purchases of wheat and corn totaling 9 mmt, with an option to buy up to 12 million without further consultations with the U.S. Government. In this LTA, if the Soviets buy 500,000 tons of soybeans or soybean meal, they can lower the grain minimum to 8 mmt. This provision is designed to encourage USSR purchases of U.S. soybeans. The United States also has an important LTA with China which specifies annual sales of 6-9 mmt, mostly of wheat but including some corn.

Financial policies of both importing and exporting countries, including credit pro-

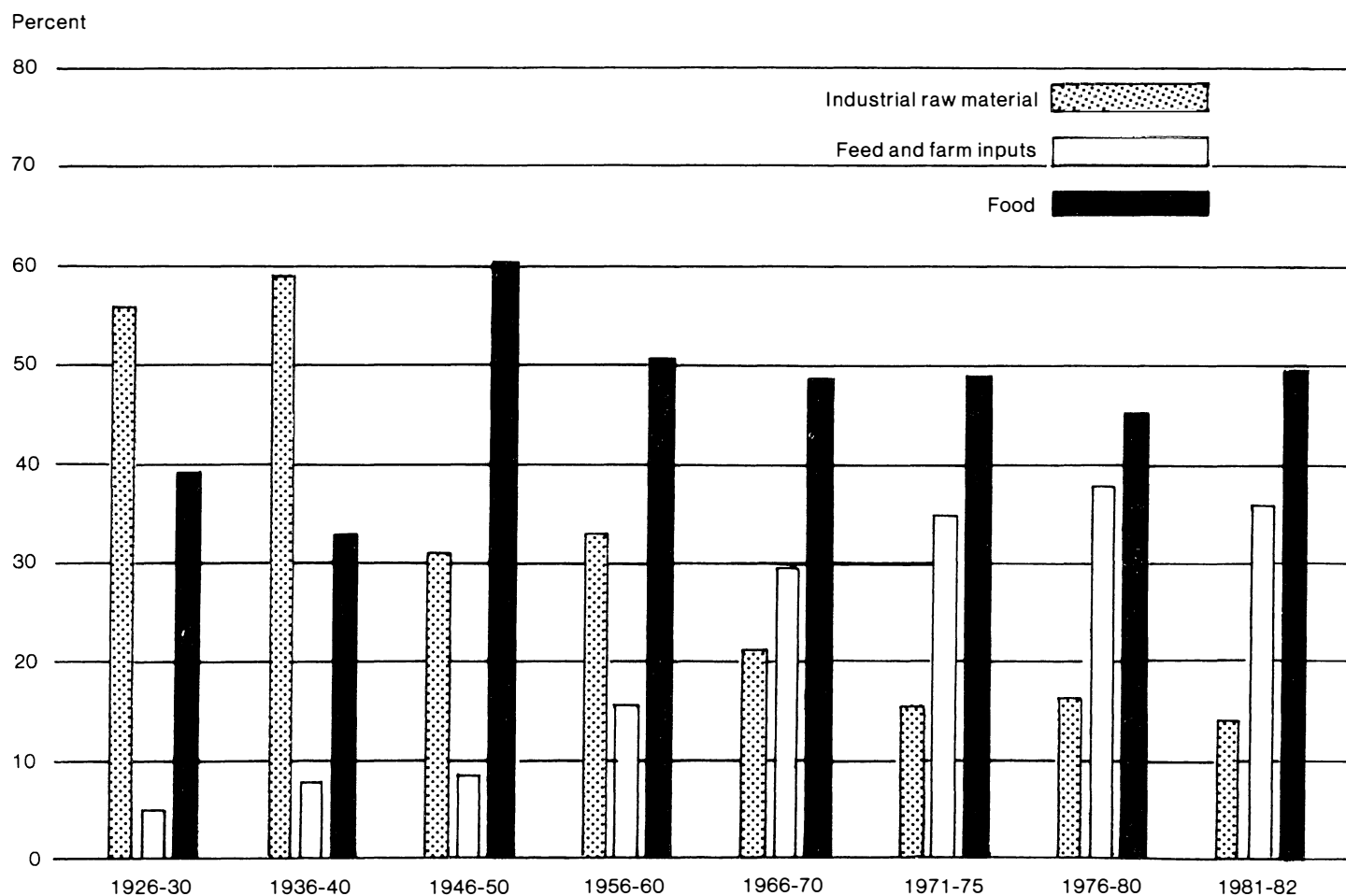
grams and currency exchange rates, substantially influence agricultural trade. The United States, for example, has instituted a new blended credit program to stimulate exports and counter the loss of market shares resulting from increased use of export subsidies by foreign governments. The program, offered through USDA's Commodity Credit Corporation, provides both Government credit at commercial rates to importing countries and loan guarantees to banks financing agricultural exports against nonpayment by importers. The bonus aspect of the new program, for which \$1.75-billion was allo-

cated in fiscal year 1983, is that up to 20 percent of each credit package will be interest free.

Many importers are currently facing financial constraints and have reduced imports. Mexico, Brazil, and Poland are examples of large buyers who lack sufficient funds or credit to maintain previous import levels.

The strong dollar keeps prices of our farm products high abroad in the currencies of our major import markets. The dollar has been strong for the last 2 years and is currently at record highs against several currencies. Thus, while U.S. farm

Figure 1. Composition of U.S. Agricultural Exports 1926-30 - 1981-82



prices fell in 1982, the prices of farm exports rose in the local currencies of many foreign markets, discouraging import demand. The strength of the dollar and the high interest rates abroad kept most countries from building inventories through foreign purchases.

Income and population changes abroad influence both the level and composition of U.S. exports. Changing income levels, for example, affect tastes and alter consumption patterns. As developing countries move up the income ladder, the share of income spent on wheat and rice for domestic consumption rises, replacing traditional roots and tubers (yams, cassava, and potatoes). Consumption of livestock products also expands. These actions increase the demand for U.S. food grains, and corn, barley, and soybeans for animal feed. U.S. exports of specialty products—tobacco, meats, fruits, and vegetables—have also been growing.

U.S. Exports

U.S. agricultural exports rose sharply during the 1970's, from under \$8 billion in fiscal year 1970 for a volume of 64 mmt to a high of \$43.8 billion in 1981 for 162 mmt, 19 percent of total U.S. exports. Exports declined in 1982 and in 1983 will fall to an estimated \$34.5 billion for 143.5 mmt. The United States, by far the world's largest exporter, accounts for approximately one-fifth of the total value of world agricultural exports and nearly two-fifths of the volume.

Since the mid-1920's there has been a gradual shift in the composition of U.S. agricultural exports (figure 1). The importance of cotton, for instance, has fallen from a 16-percent share of sales in the 1940's to less than 6 percent in 1982. Following World War II, U.S. food shipments were used in relief programs. In the early 1960's, most developed and some developing countries began expanding their livestock feeding practices and bought more U.S. grains, protein meals, and other feeds. Today, nearly 50 percent of U.S. farm exports are for direct food use—wheat, rice, fruits and vegetables, and meat; while 35 percent go for

feed and farm inputs, and 15 percent are raw materials, such as cotton, tobacco, cattle hides, and edible tallow.

Grains and products dominate U.S. agricultural exports, accounting for over 40 percent of the total value and 68 percent of the volume shipped (table 2). Though corn accounts for the largest export tonnage, wheat and products are the highest dollar earner among the grains. Grains go to a diverse group of countries, including developed, developing, and centrally planned ones. The largest U.S. wheat markets are China, the USSR, Japan, Brazil, Egypt, the EC (largely hard wheat for blending and durum wheat for pasta), and sometimes India (if their monsoon fails).

Corn goes to many of the same countries, with Japan the major market followed by the EC and the USSR. The United States, however, has served more as a residual supplier to the USSR since the 1980 embargo. The EC has reduced corn imports the last few years because of depressed demand for meat and increased feeding of their own surplus wheat. South Korea, Eastern European countries, and Mexico, depending on their

own crops and their financial conditions, also buy U.S. corn.

U.S. long-grain rice goes to Nigeria and several Middle Eastern countries, and medium length goes to South Korea when it has a production shortfall. Major U.S. trade competitors are Canada, Australia, Argentina, and the EC for wheat; Canada, Argentina, Thailand, Australia, and South Africa for coarse grains; and Thailand and Pakistan for rice.

Oilseeds and products are the next largest category after total grains. The bulk of this is soybeans shipped to crushers in the EC and Japan. Soybean meal is also important and goes largely to the EC for use directly as animal feed. Brazil and Argentina are the major U.S. competitors for soybeans and meal.

The volume of U.S. agricultural exports is expected to grow by over 3 percent annually through 1990. This is just below the 4-percent rate registered in the 1960's, but far short of the 10-percent growth experienced in the 1970's. A recovery from the world recession should induce some foreign demand growth for food and feed products, of which the U.S. is a major supplier.□

Table 2.—U.S. Agricultural Exports

	Value	Total agricultural exports		Volume		
	1971	1982	1971	1982	1971	1982
	Billion dollars		Percent of value		Million tons	
Wheat and products	1.2	7.68	15.1	19.6	20.0	46.2
Rice	0.28	1.15	3.5	2.9	1.6	2.9
Feed grains and products (corn)	1.09 (0.77)	7.04 (5.96)	13.7 (9.7)	18.0 (15.2)	18.3 (12.7)	58.4 (49.6)
Animals and products	0.93	4.07	11.7	10.4	—	—
Fruits and preparations	0.32	1.39	4.0	3.6	—	—
Vegetables and preparations	0.20	1.44	2.5	3.7	—	—
Oilseeds and products (soybeans)	2.19 (0.76)	9.55 (6.48)	27.5 (9.5)	24.4 (16.6)	(11.8)	(25.5)
(soybean meal)	(0.40)	(1.45)	(5.0)	(3.7)	(4.1)	(6.3)
Cotton	0.55	2.14	6.9	5.5	0.9	1.5
Tobacco	0.48	1.03	6.0	2.6	0.3	0.3
Total agricultural exports	7.96	39.09	100.0	100.0	61.0	158.1