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THE OUTLOOK FOR U.S. AGRICULTURAL TRADE

OUTLOOK '84

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After the decline of the past 2 years, we are projecting an upturn in U.S. agricultural export values to perhaps $39 billion in fiscal 1984. That would be about equal to the level of 1982 which was the third highest in our export history, and 12 percent above the $34.8 billion figure for 1983.

However, the rise probably will result from higher prices, not larger volume. Sales volume is expected to decline for the fourth year in a row, perhaps by 3 percent to 140 million tons, because of tighter supplies in oilseeds and factors that adversely affect our competitive position. These factors include problems created by high interest rates, the strong dollar, trade practices by other exporting countries, and others that I will discuss.

The Situation at the Outset of the 1980's

The decline in U.S. exports since 1981 has been disappointing--but, on reflection, perhaps it should have been expected.

During the 1970's and in the early 1980's, U.S. exporters had just about the best of all possible worlds:

--U.S. producers harvested large crops in 1981 and 1982 while a number of our competitors and major import market areas were having production problems. The Soviet Union, for example, had four consecutive years of grain production difficulties.

--Big new markets also were opening up for our products in the less developed, developing, and central plan countries, because of the ready availability of cash and credit.

High oil prices allowed the OPEC nations to spend lavishly on imports of all sorts. And developing nations, even those without oil resources, had no trouble obtaining generous loans from governments, international organizations, and the international banking system. They chose to use many of these loans for consumption purposes--improving their dietary standards through imports.

The central plan countries also began to heed the requests of their consumers for better diets. The Soviet Union imported large quantities of grains and Eastern Europe and China also entered the international marketplace in a big way in the late 1970's.

Credit was generously provided to meet the agricultural import needs of some central plan nations. For example, the United States extended $640 million in export credits to Poland in fiscal 1981, which helped that country become one of our top 20 agricultural markets.

--And finally, the dollar, which declined during most of the 1970's, hit a low in 1980 and 1981 measured against major world currencies. That gave U.S. agricultural products an added advantage in the international marketplace.

Perhaps the beginning of our current export problems was the embargo on shipments to the Soviet Union imposed by the Carter Administration in 1980. This provided incentives to other exporting nations to increase their production in order to serve the Soviet market and jeopardized the United States' reputation as a reliable supplier.

The Situation During the Past Two Years

Since that time, world production has increased and demand has suffered a setback because of a global recession and the related credit crunch.

Anti-inflation policies and programs enacted by governments around the world have taken much of the steam out of demand. Real growth in developed and developing countries began slipping, then dropped sharply, in the early 1980's. By 1982, the world was in a full-fledged recession.

The recession hit the developing nations, with their heavy debt loads, especially hard. Debt service ratios for some Western Hemisphere countries currently represent 40 to 50 percent of their export earnings. With little foreign exchange to spare, many once booming markets now need heavy infusions of foreign credits simply to maintain their level of imports, much less increase their purchases.

In contrast, world agricultural supplies have grown faster than demand. Government policies in two of the world's largest agricultural nations--the European Community and the United States--have provided incentives for production that are greater than market realities would indicate.

Other countries have encouraged production increases as well. This year foreign production records are in prospect for wheat, coarse grains, oilseeds, and cotton. However, production is down in the United States, because of drought and the PIK program. Nevertheless, because of large beginning stocks of the PIK commodities, there are adequate supplies in these areas to meet likely utilization levels.

The Market Now

The somewhat tight supply situation in the United States, primarily for reasons relating to the drought, will complicate life for U.S. exporters in fiscal 1984.

We may, in effect, be a relatively high-priced island in the international sea in some commodity sectors, particularly oilseeds and oilseed products.

We will also feel a double whammy from the continued strength of the U.S. dollar. It will make our products relatively more expensive in terms of foreign currencies. As a result, many of our traditional customers will not only be buying less because of economic conditions, but their reduced purchase levels are apt to contain more of our competitors' products.

High interest rates are one of the horses pulling the cart of the strong U.S. dollar. Until we bring the U.S. budget deficit under control--and until less developed countries generate more economic vitality and international capital protectionism abates--I see little likelihood of much change in the dollar's position.

As long as the Federal government is borrowing heavily in U.S. money markets, interest rates will be stronger than we would like to see as government and private investors compete for available funds. The resulting relatively high interest rates--and the added fact that the United States is a safe haven for capital--will continue to attract foreign capital, and goods, into the United States. And that, in turn, will maintain the srong position of the dollar.

The United States' competitive position also is weakened by the use of unfair trading practices on the part of other nations, and domestic farm programs that tend to price us out of world markets.

To enjoy the success in exporting we desire--not just in 1984, but beyond--we need to do three basic things:

(1) Check the growth of these unfair trading practices, especially the subsidies that other nations are using to move their surplus production into many of our traditional markets;

(2) Induce other countries to remove protectionistic trade barriers.

(3) Develop a farm program that will promote solid, sustainable growth in our overseas sales over the long term.

I'd like to discuss each of these issues, since they are so crucial to the U.S. export future.

The Subsidy Issue With the European Community

The European Community is in a very strong trade position today. It is an aggressive exporter of sugar, dairy, and poultry products; beef and veal; and wheat and wheat products. However, the EC's export strength has been built upon a policy of high internal support prices and large export subsidies--rather than upon true competition in the marketplace.

The EC's expenditures on export subsidies have increased nearly six-fold since 1975 and will likely top $6 billion in 1983.

USDA analysts calculate that the Community's Common Agricultural Policy (CAP)--with its levy system and export restitutions or subsidies--costs the United States some $6 billion a year in lost trade. That translates into a loss to U.S. farmers of $2-3 billion in net farm income and an increase of $1-2 billion in U.S. government payments.

If production and trade conditions are unchanged over the next 3 years, we estimate U.S. export losses because of the CAP may reach $8 billion a year by 1987.

We are working with EC policymakers on a regular basis in an effort to resolve the subsidy issue. A U.S.-EC working group has been established to address the issue of agricultural export subsidies with a view toward strengthening GATT rules in this area. A meeting of this group is scheduled in Brussels in early November.

While these talks are going on, we are trying to meet the EC competition with aggressive credit programs and the selective use of subsidies. We have no desire to engage in a trade war with the EC--but we will not cede world markets to those who would attempt to buy them via export subsidizing practices.

The EC's expenditures on export subsidies are now high enough to cause budgetary problems for EC policymakers. As a result of this, the EC is talking of CAP reform.

CAP Reform Issues

In this regard, we are deeply concerned about recent EC proposals that would restrict imports of several agricultural commodities of importance to the United States.

As part of its debate on the reform of the Community's Common Agricultural Policy (CAP), the EC Commission has proposed to tax the consumption of all fats and oils other than butter. Thus, the EC is proposing that the United States, and other third countries, shoulder some of its internal financial burden.

In our view, the proposed fats and oils tax could be the first move in a concerted attack to reduce imports of U.S. oilseeds and products. These are currently worth some $4 billion annually.

I spent the first part of this month in Europe talking with leaders of the European Community and its member states about the U.S. position on the fats and oils tax proposal--and also about the proposal that would restrict the movement of non-grain feed ingredients to the Community.

Our corn gluten feed and citrus pellet exports are currently worth about $700 million annually--which means our losses could run to $3-1/2 billion or more over the next 5 years if the EC tampered with our duty-free binding on these products.

We view both proposals as serious issues of principle and have so informed the EC. We will respond appropriately should the EC take unilateral action in either of these areas.

This subject is important to other exporters as well as the United States. The developing world is anxious about the proposed fats and oils tax, for example, and these countries are working with us through the U.N. Food and Agriculture Organization and in other ways to register their objections.

The Trade Access Problem With Japan

Market access is our No. 1 trade problem with Japan. Japan is our biggest agricultural export market--but the bulk of its purchases from us are raw agricultural commodities. Because of strict quotas and high duties on imports of some high-value agricultural products and restrictive internal distribution methods, it is extremely difficult for U.S. exporters to realize their full potential in the Japanese market.

For several years we have held frequent meetings with the Japanese regarding these import restrictions, in particular those for beef, citrus, and wood products.

We continue to press the Japanese for removal of the quotas and for the elimination of tariff and non-tariff restrictions. There has been a little progress in some areas, but none on beef and citrus, and too little on wood products.

The U.S. trade deficit with Japan has reached staggering proportions. A principal reason for this is the freedom of access Japan enjoys to the U.S. market. This freedom includes no restrictions on distribution, marketing, and investment activities within the United States. We are asking Japan to be fair and grant the United States similar freedom of access to the Japanese market that Japan enjoys here in the United States.

We are monitoring trade restrictions in other markets as well. The United States is pressing for changes where its trading rights are being hurt or where technicalities such as sanitary and health regulations are being used in an unreasonable way to restrict trade.

Domestic Farm Policy Concerns

Current farm policy, embodied in the Agriculture and Food Act of 1981, has been working against farm exports. The reason: our current farm programs encourage farmers to respond to government signals rather than market signals.

Apparently, the drafters of the 1981 Farm Bill assumed double-digit inflation would be with us forever. As a consequence, they mandated increases in support levels that have left us with prices above market-clearing levels for some commodities during the recent slump in world trade.

As we have been providing farmers with the price incentives to produce more, we have been pricing ourselves out of the international marketplace!

To add to the injury, U.S. support levels provide an incentive for competing countries to produce more.

When U.S. price supports are above world market levels, competitors can establish prices just below those in the United States and capture markets. The appreciation of the dollar has enhanced this advantage.

So it is no wonder that our competitors have not acted to curtail production even in the face of record-large stocks of many commodities, and that u.s. agricultural exports have slumped more than 20 percent in the past two years.

If we are to regain our export momentum in the years ahead, we must modify U.S. farm programs so that producers can receive accurate and timely market signals and be free to act accordingly.

We also need to do what we can to see that farm programs do not put us deeper into the budget deficit hole which is giving us high interest rates and a strong dollar.

A ratcheting up of target prices when not warranted, when inflation really doesn't exist, is the type of thing that prevents us from getting out of this hole. American agriculture has a very real stake in lessening the cost of government--and thus in lessening the upward pressue on interest rates and the value of the dollar.

Positive Developments and Challenges

The new long-term agreement with the Soviet Union--which calls for a 50-percent increase in the minimum quantities of grain that will be sold to the USSR and should enhance the sale of other farm products to the Soviets--is a very positive development in the U.S. export picture. Likewise, I am optimistic about an improvement in farm product trade relationships with the Chinese. China, with one-fourth of the world's population, represents a market of enormous potential.

Nonetheless, we still have serious export-related problems, despite the expected upturn in export values next year. If we are to regain our momentum in terms of the volume of sales and market penetration, we must arrest the world's drift toward greater trade protectionism and trade distortion. We also must modify our own farm programs so that they are more market sensitive--and so that the price umbrella we provide other exporting countries is eliminated.

The Commodity Outlook

At this point, I shall summarize the outlook for major export commodities.

Wheat and flour: We look for a slight increase in both export quantity and value, to nearly 39.0 million tons (wheat equivalent) and $6.4 billion, respectively, in fiscal 1984.

Global import demand will be larger. We anticipate stronger demand in North African markets, and U.S. exports to the Soviet Union will improve as a result of the higher purchase level specified in the new long term grain agreement signed this year. Gains in these markets should more than offset declines we might suffer elsewhere from increased competition from the European Community and Australia.

The Australian wheat crop is forecast at a record 19 million tons, about a million tons above any previous outturn. Consequently, Australia is expected to intensify its marketing efforts throughout the world.

Stronger import demand for wheat for feeding is also a strong possibility, in light of the tight global feed grain situation and high corn prices. The price gap between wheat and corn has narrowed significantly in recent months.

Coarse grains: Coarse grain exports are projected to rise to about 55.5 million metric tons valued at over $8-1/2 billion in 1984. In contrast to wheat, there may be somewhat less competition in the feed grain market in the early part of the season because of smaller crops and reduced export availabilities in South Africa and the EC.

However, Southern Hemisphere production probably will be stimulated if prices remain strong, and this may bring about a sizable increase during the latter half of the fiscal year.

Short barley harvests in key exporting countries such as the EC, Turkey, and Syria, will not only reduce competition in the Middle East but improve U.S. sales prospects to these traditional exporting countries.

--Unfavorable coarse grain harvests in Eastern Europe and in less developed countries such as Mexico will mean increased import needs. However, because of these countries' hard currency constraints, the extent of the increase will depend on the availability of credit.

Oilseeds: The latest USDA forecast puts U.S. exports of oilseeds and products in fiscal 1984 at 27.4 million tons, down a fifth from last year primarily as a result of reduced supplies. However, higher prices for the smaller 1983 crops will push the value of our sales to around $10 billion, up more than $1 billion from fiscal 1983. The current fiscal 1984 forecast equals the previous record set in fiscal 1980.

Harvests in the Southern Hemisphere next spring will be an important key to the ultimate level of U.S. sales. Producers in Brazil and Argentina probably will respond to the current strong prices by planting record large acreages. Other factors that will affect the outlook are the timing and strength of income growth as well as fluctuations in the value of the U.S. dollar.

Cotton: U.S. cotton exports are expected to remain about the same in fiscal 1984 at 1.2 million metric tons. The prospect of limited export gains reflects:

--increased foreign production, particularly in China;

--increased cotton yarn exports to major U.S. cotton markets by such large producers as China, Turkey, and Pakistan;

--stagnant import demand in several major markets, including Japan and South Korea;

--and a significant increase in U.S. domestic use of cotton, despite the smallest prospective crop in more than 20 years.

However, stronger prices for the 1983 crop will probably push the value of our exports to $1.8 billion, up 6 percent from this year.

Tobacco: The current outlook for unmanufactured tobacco exports in fiscal 1984 suggests that they will be down slightly from 1983 levels to 240,000 tons and about $1.4 billion. Record large world stocks, a strong dollar, high prices compared with other exporting countries, and increased competition from countries such as Brazil and Zimbabwe will continue to complicate life for U.S. exporters.

Fruit and vegetables: USDA forecasters believe that U.S. horticultural sales may improve in 1983/84, rising to 3.1 million tons worth $2.8 billion.

During the past 2 years, our horticultural product exports have faced much the same problems as other commodities--contracting global demand because of the worldwide recession, the increasing value of the dollar, the closure of markets in debt-plagued developing countries, and the adverse effects of EC subsidies for raisins and canned fruits, among other items.

Much of the gain forecast for 1984 will result from increased prices for tree nuts.

Export growth should be the strongest in markets where some economic improvement is likely. We see particular promise in Asian markets such as Japan, Singapore and Malaysia, as well as Canada.

Sales to Europe, which have been declining during the past 2 years, may hold their own or even expand somewhat, thanks to the higher prices of tree nuts and canned fruit and the short European apple crop.

Livestock and poultry: We should see some improvement in exports of dairy, livestock and poultry in 1984 as economic recovery spurs world demand. Our sales have been hurt in the past few years by the weak economies in a number of our markets, the strength of the U.S. dollar, and subsidized competition.

We are currently projecting exports of dairy, livestock, and poultry products to recover to more than $4 billion.

The value and volume of beef and variety meat exports should rise. A recovery is also expected for lard exports, which were small last year. For dairy products, the biggest increase will be for nonfat dry milk moved under the Section 416 donation program.

There probably will be some slippage in the volume of pork and tallow and grease exports. Competition for Japan's pork market will be very stiff. Denmark will be back in the market in force now that Japan has lifted its restrictions against Danish pork. The Danes doubtless will be striving hard to recapture the No. 1 position they held in that market before the outbreak of foot and mouth disease in 1982. In addition, increases also are likely in Japan's own pork production.

Tallow and grease exports, though they may decline in volume, probably will increase in value as prices move up along with those for vegetable oil.

END