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FEDERAL RESERVE BANK OF CHICAGO

AGRICULTURAL LETTER

ISSN 0002 - 1512

January 8, 1982 Number 1568

NEW AGRICULTURAL LEGISLATION was completed in December. The legislation includes a number of provisions that deal with commodity price supports, grain reserves, and crop disaster and deficiency payments. (See *Agricultural Letter* No. 1567). The four-year legislation also covers a variety of other issues. Several provisions affect agricultural research and conservation. Other measures encourage the expansion of farm exports and discourage selective embargoes against agricultural exports. The farm bill extends the authority for some special farm loan programs, includes new inspection rules for imported meats, continues emergency feed aid for livestock producers, permits federal action in case of outbreaks of plant pests, and creates a board to study farm production costs. As in the past, food stamp legislation is coupled with the overall farm bill, but the program is extended for only one year.

The farm bill continues the legacy of federal support to agricultural research, teaching, and extension at land-grant colleges. The legislation authorizes increased appropriations over the next four years for research funds to colleges and foundations and requires that a fourth of all agricultural research funding go to state agricultural experiment stations. In providing research monies, the legislation also calls for the USDA and participating universities to expand their research into a number of areas including aquaculture, rangeland management, rural development, and problems of small farms. Soybean Research Advisory Institute is to be established within the USDA and the Secretary of Agriculture is to prepare annually an assessment of the long-term need for all food, fiber, and forest products.

Conservation of soil and water in order to sustain the high levels of food and fiber production in the U.S. was emphasized in the new legislation. Also included is a Special Areas Conservation Program, which requires the Secretary to establish measures for conservation of natural resources in geographical areas where erosion or water problems are severe or chronic. The USDA may contract with farmers in these areas to provide technical and financial assistance so as to initiate changes in cropping systems or other land practices. Other provisions in the bill renew the commitment of the USDA to provide technical and cost-sharing assistance to state and local governmental units that develop and carry out resource conservation programs. The bill authorizes loans to individual farmers for conservation work but does not provide funding for these loans. A Farmland Protection Policy Act is established in recognition of the growing concern over loss of the agricultural land base. The policy is primarily aimed at reducing federal agencies' activities that hasten the conversion of agricultural land to other uses.

Farm exports—which now take the production from one of every three acres in the U.S.—were given special attention in the legislation. The bill authorizes an Agricultural Export Credit Revolving Fund to be set up and later funded. The fund would provide short-term financing for export sales of U.S. agricultural commodities and financing for the construction or acquisition of facilities in foreign countries that will utilize U.S. farm exports. In addition, the farm bill gives the Secretary discretionary power to formulate a standby export subsidy program. The program could be used to offset the subsidization of commodity prices by foreign governments to stimulate sales of their products in export markets. On the other hand, the farm bill clearly discourages any future embargoes on agricultural exports. The Secretary is required to compensate farmers if selective embargoes—i.e., embargoes affecting agricultural products only—are placed on shipments to another country that purchases at least 3 percent of U.S. exports of the affected commodity. The compensation would amount to the difference between post-embargo market prices and the equivalent of 100 percent of parity. This would embody a major cost to the government since commodity prices have been substantially below full parity for years. The parity price of corn, for instance, is over $5 per bushel. The legislation also encourages the

NOTE: A perspective on 1981 farm commodity prices appears on page 4.

President to consult with congressional committees before entering into new bilateral agreements with other countries. Public Law 480—a long-standing program that provides food assistance to foreign countries either through credit sales or donation—is extended for four years. However, budget measures passed ahead of the farm legislation placed annual spending caps on the program. For fiscal 1982 the cap is $250 million below the 1981 level of $1.6 billion.

Authorization for FmHA's Economic Emergency Loan Program —which had expired in September—was revived and extended for one year, but only at the discretion of the Secretary. If the program is implemented by the Secretary, the FmHA may lend up to $600 million under it in fiscal 1982. This limit is well below the $2.2 billion loaned in fiscal 1980 and the $1.2 billion in fiscal 1981. Some minor expansion in lending authority for farm operating loans and for ownership loans to small farm production co-operatives was also granted to the FmHA. The Farm Storage Facility Loan Program of the Commodity Credit Corporation—which provides loans for building on-farm storage—may be phased out by the Secretary except in areas of the country where storage deficiencies exist.

Poultry and other livestock producers may be provided with emergency feed aid if production of feed and pasture is disrupted by natural disaster. Expiring legislation included an emergency feed program that helped eligible livestock producers replace the feed that would have normally been produced on the farm. The new law adds poultry operations to the program and gives the Secretary discretion over utilization of the program.

Imports of meat and meat products will have to meet the standards prescribed for domestically produced meats and meat products. Provisions in the legislation indicated that by mid-year imported meats will be subject to random inspection and testing to check for residues. Stemming in part from the "Medfly infestations" during 1981, the Secretary is now allowed to act swiftly against major outbreaks of plant pests to bring them under control if he finds that a state does not act quickly or adequately. The Secretary also has the discretion to pay compensation for losses incurred as a result of federal pest control efforts. The legislation makes some changes in a number of advisory committees that assist the USDA. One measure, in particular, calls for the creation of an 11-member panel of USDA personnel and producers to review the USDA's methods of estimating farm production costs and to make recommendations.

The food stamp program for fiscal 1982 was capped at a level, $11.3 billion, equal to its cost a year ago. However, the farm legislation provides for only a one-year extension in funding. To keep costs from rising, the legislation postpones the cost-of-living adjustment in food stamp allotments due in April until October. If unemployment rises and the number of eligible recipients increases, the spending cap may necessitate a reduction in individual benefits. The legislation also includes incentives for state agencies—which administer the program locally—to reduce errors and stop fraud. In addition, localities may adopt workfare if they wish to do so. Workfare is an approach whereby able-bodied food stamp recipients are required to perform public service work in return for their stamps. The bill provides that surplus commodities acquired through government price support programs—such as dairy products—will be donated to nutrition programs for the elderly and children and to local projects that are authorized to aid needy people. Already about 5 percent of the cheese stored by the Commodity Credit Corporation has been made available in some parts of the United States.

AGRICULTURAL TRADE WITH THE USSR AND EASTERN EUROPE has taken on new overtones with the imposition of martial law in Poland and the USSR's apparent involvement in that country. The administration has suspended agricultural aid shipments to Poland and imposed several sanctions on the Soviets, including the postponement of talks on a replacement to the U.S./USSR long-term grain agreement that expires in September. Stronger measures such as another grain embargo or even an all-encompassing trade embargo are apparently under review but as yet are not expected.

The Soviet Union has been a regular buyer of U.S. grains—particularly corn and wheat—since 1972. Corn and wheat shipments to the USSR generally trended higher, although the amount varied from year to year depending on the adequacy of the Soviet's grain harvest and—particularly during the 1980/81 embargo—the availability of grain from other countries. During the five fiscal years ending in 1976, U.S. shipments of corn and wheat to the USSR averaged 7 million metric tons per year, ranging from under 2 to over 13 million metric tons. From fiscal 1976 to 1981—the period that corresponds with the five-year U.S./USSR grain agreement—shipments of corn and wheat averaged 10 million metric tons per year. Most of the increase in shipments reflected heavier buying of corn. In fiscal 1981—a year when sales to the USSR were encumbered by the partial embargo—3.7 million metric tons of wheat and 4.9 million metric tons of corn were shipped to the USSR. Annual corn exports to the USSR during the past five years ranged from 3 to 10 million metric tons and, on average, accounted for 13 percent of all U.S. corn exports.

U.S. grain shipments to Eastern Europe—which includes East Germany, Czechoslovakia, Hungary, Poland, Yugoslavia, Albania, Romania, and Bulgaria—have had a similar pattern of variability over the last ten years. But the rise in shipments has been more pronounced. From fiscal 1972 to 1976, U.S. shipments of corn and wheat to Eastern Europe averaged 2 million metric tons per year. From fiscal 1977 to 1981, the average rose to 6 million metric tons per year, with corn accounting for most of the rise. In fiscal 1981, corn shipments to Eastern Europe were 7.2 million metric tons while wheat shipments amounted to 730 thousand metric tons. Over the past five years, U.S. corn shipments to Eastern Europe have ranged from 2 to 7 million metric tons, and on average accounted for 9 percent of all U.S. corn exports.

Poland accounts for a major share of U.S. grains shipped to Eastern Europe. On average, one half of the corn and wheat shipments to Eastern European countries go to Poland, although the Polish share has ranged from a third to over 70 percent. In fiscal 1981, corn shipments to Poland were 2.7 million metric tons and wheat shipments were 300 thousand metric tons.

Grain trade with the Soviet Union was facilitated by a five-year grain trade agreement negotiated in 1975. That pact assured annual sales of 6 to 8 million metric tons of corn and wheat to the USSR and allowed for higher amounts upon further consultation between the two countries. For example, in 1979 the two governments agreed that the USSR could purchase up to 25 million metric tons of wheat and corn during the fourth year of the agreement (fiscal 1980). However, in January 1980 the President, in response to Soviet activities in Afghanistan, suspended all grain shipments above the basic 8 million metric tons allowed in the agreement. That action forced the USSR to purchase more grain from other countries, particularly Argentina.

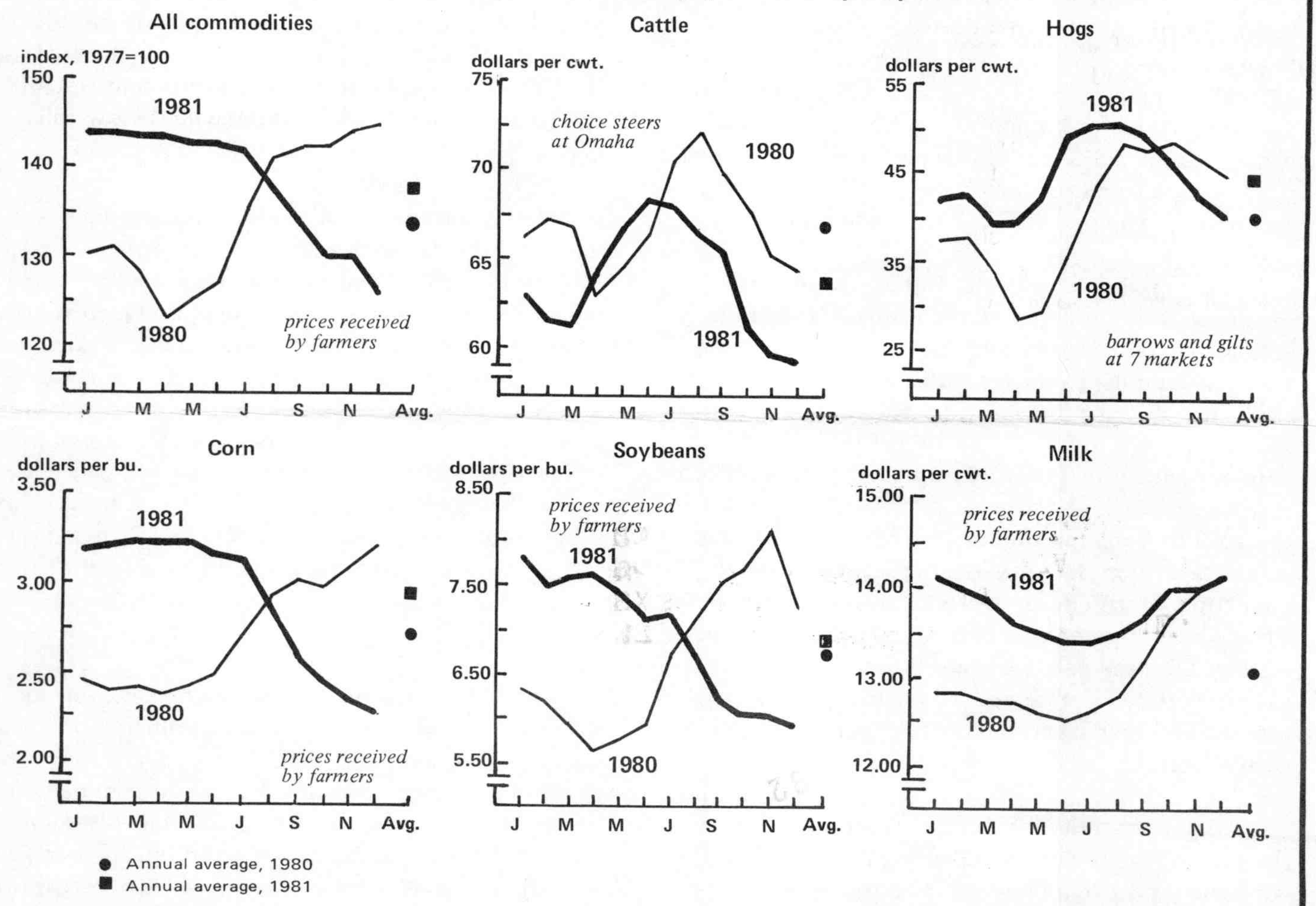
The partial embargo was lifted in April 1981. In subsequent negotiations the Soviets were authorized to purchase up to 23 million metric tons of U.S. grains in 1982. Most analysts were anticipating the Soviets would purchase 15 to 18 million metric tons of U.S. grain. As of late December the Soviets had purchased 11 million metric tons of wheat and corn with about 4 million metric tons of that already shipped.

Hopes for additional Soviet purchases have been jolted by the latest developments in Poland. In late December, the President imposed new sanctions against the Soviet Union as a result of its apparent involvement in Polish domestic affairs. These sanctions included postponement of talks on a new long-term grain agreement and suspension of negotiations for a new maritime agreement between the U.S. and the USSR. Expiration of the existing maritime agreement at the end of December meant that Soviet ships bound for the U.S. for grain or other commodities must give advance notice and seek U.S. approval before coming into port. Under the expiring agreement short notice and automatic approval were possible.

The administration has indicated that even more stringent sanctions—such as a grain embargo or an all-encompassing embargo—are also under review. The likelihood of these additional measures, though, will depend on the future posture of Soviet involvement in Poland. If stiffer sanctions are imposed, their impact would hinge largely on the extent to which other exporting countries adopt similar measures. Presently there are indications that tensions in Poland may be easing somewhat. But as long as the possibility of another grain embargo exists—whether invoked alone or as part of a broader trade suspension—concern over the short-term and long-term effects on agricultural trade is likely to last. Sales to the USSR and Eastern Europe, though depressed in part by a previous embargo, have been about 7 percent and 12 percent, respectively, of annual U.S. sales of corn and wheat in recent years. With record harvests last year resulting in an unusually large supply of grain for sale, increased exports to other countries would be needed to offset any reduction in shipments to the USSR and Eastern Europe in the short term. In the longer term, another grain embargo could cast the U.S. more into the role of a residual supplier of grains and raise further doubts about its reliability as a supplier of grain to world markets.

Jeffrey Miller

1981 farm commodity prices in perspective



AGRICULTURAL LETTER
FEDERAL RESERVE BANK
OF CHICAGO
Public Information Center
P.O. Box 834
Chicago, Illinois 60690
Tel. no. (312) 322-5112

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HEAD-DEPT.OF AGRIC.ECON. AGL
INSTITUTE OF AGRICULTURE
UNIVERSITY OF MINNESOTA
ST.PAUL,MINNESOTA 55101