IMPLICATIONS OF CHANGING TRADE PROGRAMS TO U. S. AGRICULTURE

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This is a period of activity and of change in world trade. The implications of most of these changes are favorable to American agriculture.

There is a tendency to think of trade programs only in terms of formal trade negotiations such as those now under way in Geneva where all the major free world countries are seated around the bargaining table. Actually a wide variety of policies and programs affect the level of farm exports. Some are bilateral, involving only one other country. Others are multilateral. Some affect only one commodity. Others affect virtually all the farm products we export.

The negotiations in which we are presently engaged in Geneva under the auspices of the General Agreement on Tariffs and Trade (GATT) represent the most ambitious efforts to liberalize world trade ever undertaken. The objective is to halve all existing tariffs and to remove or reduce nontariff barriers to trade. These negotiations have been under way for two years. Hopefully, a final agreement will began to take shape this winter. In negotiations with implications as far reaching as those expected to come out of this round, participating countries are understandably cautious.

While the EEC is anxious to conclude these negotiations which will give their products, largely industrial items, greater access to markets in other countries, especially the vast and lucrative U. S. market, they are reluctant to lower the tariff wall separating their agriculture from that of the United States. The successful conclusion of these negotiations, however, requires a reduction in these barriers. We are committed to a liberalization of trade in agricultural products as well as industrial products.

The stakes in these negotiations are high. If successfully concluded they will provide a powerful stimulus to the economic growth of the free world. And there is scarcely a farmer in this country who will not be affected by their outcome.

GEARING FARM PROGRAMS TO EXPORT POSSIBILITIES

Until recently, the development of farm programs has been based largely on internal economic conditions and relationships with little

thought given to world market conditions. Today, with U. S. agriculture becoming more and more export oriented, we are beginning to formulate our programs with at least one eye on world markets.

Throughout most of the postwar period, we have faced a dilemma in our farm programs. Bolstering farm incomes through support programs has pushed prices of some of our farm products above world market levels. Thus a substantial subsidy has been required to maintain exports. Under this system the objectives of protecting farm income, expanding farm exports, and reducing government costs were in basic conflict. The higher the prices on farm products, the more difficult it was to compete in world markets.

In the Agricultural Act of 1964, we initiated a new approach to this problem. Under the new approach, the income of wheat growers is supported through a marketing certificate received on that part of the crop consumed domestically. This permits U. S. wheat to move at or near world price levels.

The feed grain program introduced in 1963 was also designed to make our exports more competitive. By setting the loan rate at world price levels and supporting producers' income through direct payments, it has been possible to keep our feed grains competitive in the world market. The recent sharp increases in our feed grain exports attest to the success of this approach.

The Food and Agriculture Act of 1965 is designed to improve the competitive position of another farm commodity, cotton, through an adaptation of this approach. In the future we can expect this approach to be extended to other important farm commodities.

Under the new cotton program the income of cotton producers would be supported through payments to producers and CCC loans at or below world price levels. This would permit cotton to move at world market prices while maintaining producer income. The competitive position of U. S. cotton in both the domestic and foreign markets will be greatly strengthened by this program.

DEVELOPING MARKETS ABROAD

Broadly considered, all our efforts to expand trade are market development activities. But I would like to focus on market development in terms of the direct promotion of U. S. farm products in overseas markets.

Over the past few years we have employed a remarkably effective market development team effort between the U. S. Department of Agriculture and commodity groups. This broad-based effort involv-

ing some 45 U. S. trade and farm groups, operating in 70 countries, includes every major farm export item, ranging from raisins to soybeans.

These market development efforts concentrate on education of consumers and processors using among other things advertising, free samples, and nutrition education programs. European housewives have been introduced to American fried chicken at trade fairs and have quickly acquired a taste for U. S. frozen poultry. Nutrition education in Japan has taught the value of more diversified diets and is helping increase the use of wheat products.

Our expanding market development efforts, though fairly new, are creating new and larger markets for U. S. farm products. The payoff for these efforts, already evident in the steadily rising volume of farm exports, will become even more evident in the years ahead.

U. S.-CANADIAN ECONOMIC INTEGRATION

I mentioned earlier that our efforts to expand exports have many dimensions. We have made a concerted effort in recent years to strengthen our economic ties with Canada. The two-way trade between the United States and Canada, now totalling 8 billion dollars per year, substantially exceeds the trade between any other two countries. The barriers to trade between us are gradually falling, making possible an ever-growing exchange of products.

On January 16, 1965, the United States and Canada agreed to eliminate all tariffs on cars, trucks, buses, and automotive parts moving between the two countries. Thus a sizable fraction of the trade between the two countries was freed from restrictions of any kind. Both countries stand to benefit.

Canada, though it has only 20 million people, is a rapidly expanding market for the products of our farms, ranking second only to Japan. U. S. farm exports to Canada, now approaching a half billion dollars annually, are more than double our farm imports from Canada.

Canada takes large quantities of U. S. cotton, soybeans, and fresh and canned fruits and vegetables. Though a leading wheat exporter, our neighbor to the north is an increasingly important market for U. S. produced feed grains, especially corn. Continuing close economic cooperation and further integration of these two economies is certain to benefit American farmers.

JAPAN–OUR FIRST BILLION DOLLAR MARKET

The Japanese economy has, in recent years, demonstrated a capacity for growth unmatched in any other country. As austerity has given way to affluence, the Japanese have upgraded their diets, eating more and better food. Last year Japan, now our number one farm market, purchased 742 million dollars worth of U. S. farm products. If recent trends continue, Japan will shortly become the first billion dollar market for U. S. farm products.

Efforts to strengthen the ties, both economic and political, between the United States and Japan have been unusually imaginative and highly successful. Four years ago President Kennedy and Prime Minister Ikeda of Japan established a Joint U. S.–Japan Committee on Trade and Economic Affairs comprised of cabinet officers of the two countries.

The two cabinets began their fourth joint meeting on July 12—this time in Washington with President Johnson presiding. Since the committee's formation four years ago, Japan's exports to the United States, almost entirely industrial goods, have doubled. Farm products, making up a large part of our exports to Japan, have increased by two-thirds.

In a world in which the economics of trade and the politics of survival are so closely linked, the free world stands to gain from the further integration of these two large and rapidly growing economies. With Japan so dependent on imported food, feed, and fiber, immense advantages accrue to U. S. agriculture from the continuing integration through trade of our economy with the viable, rapidly growing Japanese economy.

FROM "BIG THREE" TO "BIG FIVE"

Throughout most of our history as a nation, three commodities —wheat, cotton, and tobacco—have dominated our agricultural exports. Since World War II, however, two more commodities—feed grains and soybeans—have been added to our list of major farm exports. The "big three" have become the "big five."

Wheat and the War on Hunger

The growth in our wheat exports since World War II is due almost entirely to the growing gap between food needs and food production in the less developed regions of Asia, Africa, and Latin America. Wheat accounts for most of the food moving abroad under the Food for Peace Program. It is the principal instrument in our world-wide efforts to alleviate hunger.

Recent trends in our exports of wheat illustrate how export oriented some segments of U. S. agriculture are becoming. A decade ago only a minor share of our wheat crop moved into export channels. During the past few years some three-fifths or more of the crop has been exported. Last year's U. S. wheat crop was consumed approximately as follows:

Where Consumed	Percent of Crop
United States	40
India	20
All other countries	40

Many aspects of our wheat export trade are changing. Historically most of our wheat exports went to Western Europe. Today most U. S. wheat exports go to the less developed regions, principally Asia. Traditionally all of our wheat was exported commercially. Today most of it moves abroad under concessional terms.

With Public Law 480, the enabling legislation for the Food for Peace Program, expiring in December of 1966, we are beginning to think of what kind of a program we will want after 1966. One thing is certain—the developing countries will continue to need large quantities of food supplied on concessional terms.

Rising Feed Grain Exports Reflect Prosperity Abroad

Most of the present world trade in feed grains has developed since the end of the Korean War. U. S. exports of feed grains will exceed 20 million tons this year, compared with an average of only 5 million tons per year in the early 1950's.

The rapid rise in world feed grain exports is tied to the rapidly rising living levels in the land-scarce, high-income countries of Western Europe and Japan. The upgrading of diets in these countries requires the import of either livestock products or the feed grains to produce livestock products. Demand for meat, in particular, has outrun supply in Western Europe, causing some countries to temporarily suspend import duties on meat and other countries to do the same for feed grains.

We now supply more than one-half of all the feed grains going into world markets. Our strong competitive position in the production of virtually all feed grains should enable us to at least maintain this share. If recent trends continue our share of the world feed grain market will grow even larger. A successful conclusion of the GATT negotiations now under way in Geneva, giving our feed grains greater access to the European Common Market, would enhance our export prospects even further.

Soybeans—A Prize Performer

A generation ago soybeans were relatively unimportant in the United States. Soybean production was only a fraction of what it is today and exports were negligible. China completely dominated soybean trade in the late 1930's, supplying 90 percent or more of the soybeans entering the world market.

During the past twenty-five years, however, dramatic changes have occurred in both the world pattern of production and trade. China, faced with lagging agricultural output on the one hand and steady growth of population on the other, has lost its traditionally large exportable surplus. The United States now supplies 90 percent or more of the soybeans and soybean products entering world markets.

Production of soybeans in the United States has climbed rapidly in recent years, going from 234 million bushels in 1949 to an estimated 867 million bushels this year. Soybean acreage has increased from 10 million acres to 35 million acres during the same period.

U. S. exports of soybeans and soybean products, valued at 843 million dollars in 1964, have increased tenfold since the early 1950's. Few export commodities, agricultural or industrial, can match this increase.

Soybeans have been a powerful plus in the U. S. economy, adding to farm income and earning much needed dollars to help our international balance of payments position. Originally important for their oil content, soybeans now have their principal value as a source of oil meal, an increasingly popular high-protein ingredient in livestock feed. The rapidly growing demand for imported soybeans in both Western Europe and Japan is closely tied to the growth of the livestock industry. With prospects for continued growth in import needs, our exports of soybeans and soybean products will pass the billion dollar mark in only a few years.

Cotton—An Old Stand-by

Cotton, one of our earliest farm exports, has played an important role throughout much of our history. Until World War II, we dominated world cotton trade, often supplying more than one-half of all cotton entering export channels. In recent years, however, our share of the world cotton market has declined to about one-third.

U. S. cotton faces two serious challenges in the world market—the emergence of new producing countries and rapid growth in the production of synthetic fibers. These two factors, both abetted by

our past difficulty in maintaining competitive prices, have reduced our share of the world market and the relative importance of cotton among our farm exports.

The new farm bill contains provisions designed to improve the competitive position of U. S. cotton. If this new program becomes law, the outlook for cotton exports should improve markedly.

Tobacco—A Steady Performer

U. S. exports of tobacco have ranged around 500 million pounds per year throughout most of the postwar period. U. S. tobacco, like cotton, has faced stiff competition from the newer producing countries, especially Rhodesia. Although world trade in tobacco has expanded steadily in recent years, nearly all of the growth is due to the expanded exports in the newer producing countries.

U. S. tobacco sells at a premium in world markets because of its quality. In recent years some of this quality advantage has been lost. Domestic tobacco programs, centering around acreage allotments, encouraged farmers to produce as much tobacco as possible, often at the expense of quality. Realizing this, we have revised our programs, going to a combination acreage-poundage system, in operation this year for the first time. Quality improvements in this year's crop are already stimulating an unusual degree of interest among foreign buyers. It appears that our tobacco exports may also begin trending upward.

LIVESTOCK PRODUCTS: A NEW TREND

Until quite recently, prospects of significantly expanding our exports of livestock products did not seem good. During the past two years, however, export prospects have improved considerably. Exports of variety meats, live animals, hides and skins, and tallow reached new highs in 1964. Annual exports of livestock products, averaging from 500 to 700 million dollars between 1955 and 1963, exceeded 840 million dollars in 1964.

Exports of nonfat dry milk to the less developed regions is a practical way of using our agricultural production potential to alleviate diet deficits in animal protein. Nonfat dry milk ships and stores well. It is a key ingredient in the U. S. sponsored school lunch programs now operating in many less developed countries as part of the Food for Peace program.

In the late 1950's our exports of frozen poultry began to rise rapidly. But this was seriously set back by the imposition of import restrictions in the EEC countries. With rapid growth in exports to

non-EEC countries, however, the long-term prospects for expansion are good.

Exports of variety meats, at 229 million pounds during this past year, are expected to continue steadily upward. The rapid growth in our sales of variety meats reflects the rapidly rising income levels in the major importing countries of Western Europe. Exports of pork, the other livestock product doing well in recent years, have nearly doubled since the late 1950's. Other developments such as exports of small quantities of feeder cattle and young calves to Europe, also hold some promise for the future. We can now be more optimistic about the future prospects for livestock product exports than at any time in recent years.

SUMMARY

Our efforts to expand exports of U. S. farm products are many and varied. The best measure of efforts being made by commodity groups, farm organizations, and the U. S. Department of Agriculture to expand exports is the actual performance of exports. Our exports of farm products, increasing from 3.96 billion dollars in 1959 to 6.35 billion dollars in 1964, have increased 60 percent thus far in the 1960's.

This year promises to be another good export year. Exports of four of the "big five" export commodities—wheat, feed grains, soybeans, and tobacco—are expected to be at record or near-record levels. Barring any serious setbacks, our farm exports may break all previous records in the fiscal year ending next June.

The question is no longer whether our farm exports will trend upward or downward. The only question is how rapid the increase will be. I think we can confidently look forward to a 7 billion dollar export year within the near future.