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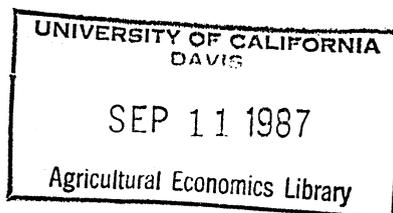
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1987

CANADIAN AGRICULTURAL ECONOMICS
AND FARM MANAGEMENT SOCIETY
PRESIDENT'S ADDRESS

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Canadian Wheat Board



WORLD GRAIN TRADE:

AN ECONOMIC PERSPECTIVE OF THE CURRENT PRICE WAR

Presented to the 1987 Annual Meetings of the
American Agricultural Economics Association
and the
Canadian Agricultural Economics and Farm Management Association
East Lansing, Michigan

August 2-5, 1987

Grain trade

WORLD GRAIN TRADE:
AN ECONOMIC PERSPECTIVE OF THE CURRENT PRICE WAR

The topic of this presentation is the current crisis facing grain exporters. This paper focuses on some of the fundamental economic concerns of the grain sector, some of which have been missed in the general debate. Of primary concern is the realization that export competition in its current form has abandoned the export market as a vehicle for increasing our nations' economic wealth. The notion of comparative advantages of exporters has been overshadowed by competitive advantages purchased by those treasuries and consumers with the deepest pockets. I will attempt to shed some light on the economic irrationality of this situation and propose that a reversal of export subsidization is possible and desirable for all grain export participants.

However, before discussing the grain markets, I would like to make a few general comments about Canada's trade relationship with the United States. It is often pointed out that Canada and the United States boast the longest undefended border in the world. Those times when the border took on a more defended look generally involved such products as hogs and feeder cattle.

The author gratefully acknowledges the substantial input and insightful comments of Mr. Harvey Brooks of the Canadian Wheat Board in the preparation of this address.

Manitoba, Can.

Trade between our two countries is the largest bilateral trade partnership in the world. It is a surprise to many Americans and Canadians that U.S./Canada trade exceeds that of any two countries in the world, including U.S./Japan and even U.S./EEC-12. In addition to the commodity flow, there is also a major flow of investment across the border, thereby integrating, in a competitive sense, many of our production and marketing industries.

1986 U.S. Trade - All Commodities

	<u>Exports by U.S.</u>	<u>Imports by U.S.</u>
	- billion U.S.\$ -	- billion U.S.\$ -
Canada	57	70
Japan	23	82
EEC	51	75

Source: USDA FATUS
Statistics Canada

Trade between Canada and the United States is relatively free of restrictions in most products, and our two countries are currently negotiating to further remove barriers to trade across the border. The border, however, is not invisible. At times the border is delineated by different land use patterns which are the result of different institutional arrangements and different policy approaches to agriculture.

Because our countries often have contrasting approaches to agriculture policy, but are very similar in many other areas, Canadian and U.S. agricultural economists can often benefit by observing the policy mistakes and successes of our friends just over the border. Such real life policy experiments with

built-in control groups are a major asset to our profession. For example, U.S. economists who are interested in such topics as income stabilization, marketing boards, single desk selling agencies and varietal control will benefit from studying the Canadian experience, as will Canadians who are interested in such topics as acreage set aside, diversion and long-term conservation programs.

World Grain Trade - A Decade of Stagnation

We are now into the final quarter of the eighties decade. In 1980/81, world trade in wheat and coarse grains exceeded 200 million tonnes. This level marked the end of the growth decade of the seventies, which began with trade at 100 million tonnes. By the end of the eighties trade should recover to the 200 million tonnes level after having fallen back in the mid-eighties. However, it is a mistake to focus too much attention on 1980/81 as a base period against which to compare trade in the eighties. Rather, it was the end year of a decade of incredible growth during which wheat and coarse grains trade grew, on average, 10 million tonnes a year. But, we should keep in mind that the growth decade of the seventies began in a climate very similar to that of today. Prices were depressed and trade was down considerably from peak levels of the sixties. As is the case today, the depressed climate of the day was reflected by pessimistic long-term projections for the industry.

Well, it turned out that the marketing outlook was not so poor. The Soviet Union and other centrally planned countries greatly increased their purchases, as did many developing countries, fueled in part by easy credit. Volumes of

grain trade increased, as did the real price. In the exporting countries, the buoyancy of the seventies created expectations of continued profits driving up land prices and production. This atmosphere was heightened by inflation psychology and government policy which reinforced and magnified these trends. The current grain export market is surprisingly close to projections for trade made in the mid-seventies. For example, the Canadian Wheat Board, due to concern about inadequate infrastructure, particularly rail capacity, publicized 1985 export targets in 1976. For wheat, world trade was projected at 85 million tonnes, and this projection was optimistic relative to others, such as the World Bank. Current world wheat trade is 90-100 million tonnes. However, the rapid growth between 1976 and 1981 seemed to confirm the bullish expectations which began with the large Soviet purchases in 1972, and the subsequent world food scare. Therefore, expectations and the institutionalization of government programs appropriate for a scarcity situation led exporting countries to their current problems. In the last year the market has followed an inelastic demand curve precariously close to a zero price.

The depth of the price collapse is due to the production and export subsidization policies of the two largest exporters, the EEC and the United States. The EEC maintains it has social priorities which must be met, while the United States says the trade ramifications of these policies are unacceptable and has chosen to fight fire with fire through the adoption of EEC-style programs. The main difference, as I will discuss shortly, is the relative emphasis on high consumer prices versus budgetary expenses.

World Wheat Prices

Table 1 illustrates how low prices are to Canadian wheat producers in a historic sense by any norm, whether it be real or nominal. These returns are indicative of the returns achieved in the export market by all exporters.

Table 1: Wheat Price¹ - InStore Thunder Bay

<u>Years</u>	<u>CWB Realized Payment Cdn \$/tonne</u>	<u>CPI</u>	<u>Inflation Adjusted² Cdn \$/tonne</u>
1950	68.27	0.20	344.60
1955	59.12	0.22	263.86
1960	65.95	0.25	267.16
1965	73.38	0.27	274.53
1970	61.40	0.32	190.49
1975	146.26	0.46	318.02
1980	222.12	0.70	317.81
1985	160.00	1.00	160.00
1986 ³	130.00	1.04	124.42
1987 ³	110.00	1.08	101.85

1. No. 1 Northern to 1970 and 1 CWRS thereafter.
2. 1985 = 100
3. Initial payment

Prior to 1985 the lowest inflation adjusted wheat return in the post WW II period was 176.75 (Cdn \$/tonne) which occurred in the 1971/72 crop year, the end of the last major wheat trade recession. Current returns are drastically below the 1971/72 price in inflation adjusted dollars and are still declining.

While some in this audience may be shocked at the price producers are receiving for their grain production, the Canadian producer will tell you that things are actually much worse than the CWB prices reveal. First, the CWB initial prices are instore at export position; Thunder Bay on the Great Lakes system, or Vancouver on the Pacific coast. Producers must pay approximately Cdn \$15.00/tonne (U.S. \$11.28) to place their wheat at these points.

This leaves the 1987/88 price for wheat at Cdn \$95/tonne (U.S. \$71.43) in a country position for the highest quality wheat; the wheat upon which Canada's reputation for wheat quality was established. There is also a significant quality-price risk with which Canadian producers must contend. The CWB prices for wheat are designed to reflect the value of the wheat in export sales. Thus, the price for medium quality and feed wheats is at a substantial discount to the top milling grades of wheat. In 1987/88, the price discount for feed wheat is Cdn \$40/tonne (U.S. \$30.00). This quality risk is not so strongly reflected in the systems of the EEC or even the U.S. where total producer returns do not reflect the wheat value in end-product use. The government purchase prices in these systems establish a floor price for wheat and/or income protection with little reflection of quality differences. This is illustrated in Table 2. As an example of the current distortion in the wheat market, one need only point out that the EEC producer receives for feed wheat a price that is more than twice the price received by the Canadian producer for the highest quality milling grades.

Table 2: Comparative Wheat Prices

	<u>Milling Wheat</u>	<u>Feed Wheat</u>	<u>Price Spread</u>	<u>Percentage Discount</u>
	U.S. \$/tonne			%
Canada <u>1/</u>	72	42	30	42
EEC <u>2/</u>	204	194	10	5
U.S. <u>3/</u>	164	157	7	4

- 1/ 1987/88 initial prices for 1 CWRS and Canada Feed Wheat backed-off to an on-farm position by Cdn \$15/tonne for rail freight and handling charges. The exchange rate conversion is Cdn \$1.32 per U.S. dollar.
- 2/ French producers receive 94% of the 1987/88 intervention price for feed quality wheat of ECU 170.47/tonne and the milling wheat (i.e., bread wheat) intervention price was ECU 179.44/tonne. (Exchange = 7.476 ff/ECU and 6.187 ff/US\$).
- 3/ The guaranteed U.S. spring wheat (14% protein) on-farm price is the target price of U.S. \$4.38/bushel plus a \$0.09/bushel loan rate quality premium. Spring wheat (14%) may earn a market premium above the loan rate, however, depending on supply availabilities. The target price is the base price for feed wheat at U.S. \$4.38/bushel adjusted by an \$0.11/bushel grade discount. U.S. support is subject to a \$50,000 payment limitation.

Gains to Trade

The current level of price competition and export volume competition has created a no win situation for grain exporters such as Canada, Australia and Argentina which rely principally on export returns to support their agricultural sectors.

If there is to be a resolution to the current grain trade crisis, all exporters must view international grain trade as a mechanism for mutually beneficial sales. That is, a market where both the buyer and seller realize economic gains from trade. Currently, only the buyer of EEC and U.S. grains is realizing economic gains from these transactions. In the EEC export subsidies for wheat and barley are over U.S. \$150.00 per tonne, while the export price is half that value. In the U.S. the value of barley sales to Saudia Arabia, for example, is less than U.S. \$20.00 per tonne basis an on-farm North Dakota position. The local market is over U.S. \$60.00 per tonne and the realized farm income is over U.S. \$120.00 per tonne. Similarly, U.S. wheat sales to the USSR this spring translate into a Kansas farm price of less than U.S. \$60.00 per tonne, while the local market was trading at approximately U.S. \$100.00 per tonne, and the target price guaranteed to producers was U.S. \$161.00 per tonne. This foreign aid package is certainly a major contrast to the grain embargo of a few years ago. It is not hard to see that the EEC and the U.S. are presently realizing economic losses from these exports. These policy approaches are reducing the economic wealth of these nations. When these two large exporters approach the export market without regard for net economic returns from sales, they ensure that all exporters are reduced to the same level of low or negative economic returns. These policies can only be described as "beggar thy neighbour" policies akin to the disastrous trade policies pursued in manufacturing in the 20's and 30's. The economic losses in the export market are magnified in economies that are much more export dependent, such as Canada's, Australia's and Argentina's. Accordingly, we must respond by admitting defeat and abandoning low cost, highly productive farmers, or by introducing special welfare programs.

Comparative Versus Competitive Advantage

Table 3 illustrates the relative importance of the export market to the five major wheat and wheat flour exporters from 1983/84 to 1985/86. The EEC-12 consumes approximately 80% of its wheat production domestically and exports the remaining 20%. At the other extreme, Canada exports approximately 80% of its wheat production and consumes only 20% domestically. Australia and Argentina are also predominantly reliant on the export market to support their wheat producing sectors. The U.S., which exports one-half of its production and consumes the other half domestically, is in a position where export market returns should be a major factor in the success of its wheat producing sector. The high producer income supports in the U.S., however, combined with a sizeable domestic market currently allow the U.S. wheat sector to treat the export market only as a clearing house for excess stocks. The export returns do not significantly affect the economic well-being of U.S. wheat producers.

Table 3

Wheat and Wheat Flour Exports as a Percent of Production
1983/84 - 1985/86 Average

	%
Canada	79
Australia	75
Argentina	68
U.S.A.	50
EEC-12	21

Source: International Wheat Council

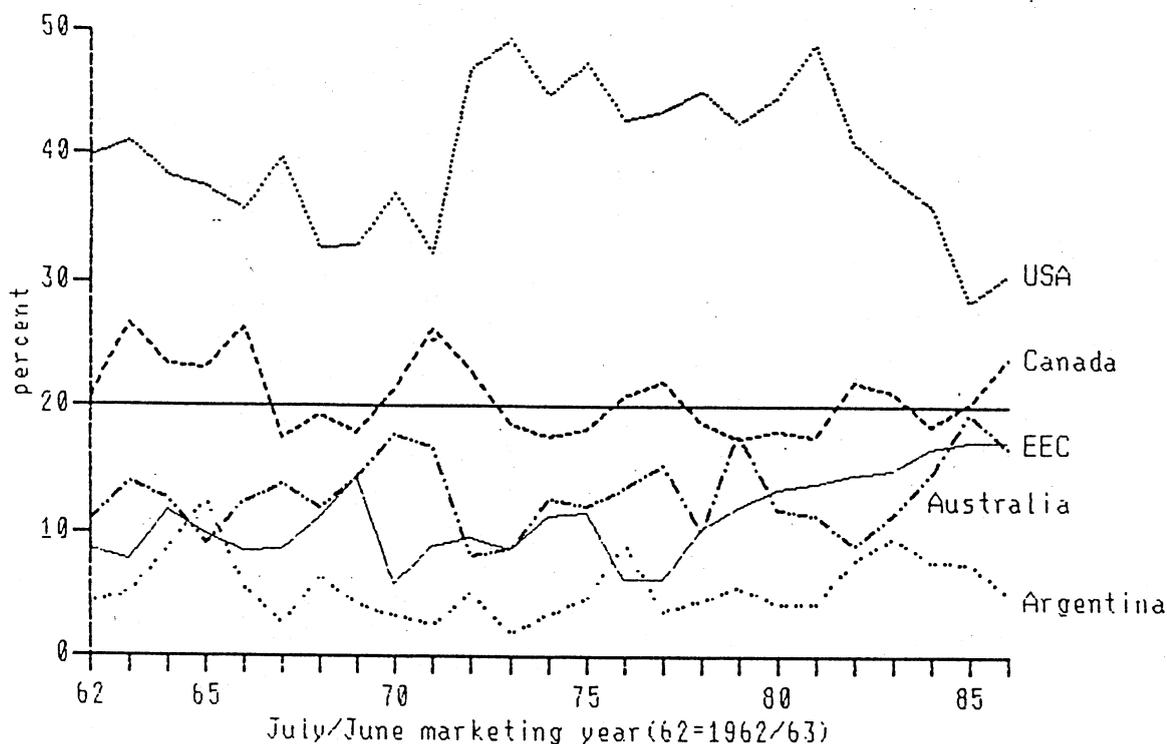
Table 4 illustrates the competitive advantage of domestically oriented producers when pricing for the export market. Domestically oriented producers, such as in the EEC, receive 80% of their revenue from a domestic market which is highly priced relative to export returns. Domestically oriented producers can average dramatically higher returns, even if they receive the same domestic and export selling prices as Canadians, who only sell 20% of their production domestically. Table 4 also illustrates that the domestically oriented producer can receive a very low price, even a large negative price, from the export market and still achieve higher average returns than an export oriented producer. The introduction of export subsidies into this simple example would only make things worse. Domestically oriented producing nations thus have a competitive advantage in pricing on export sales as they are able to initiate and withstand price cutting competition much better than an export oriented producer. These observations suggest that domestically oriented systems may unknowingly overstep the boundary of decency and fair play in trade among friendly, competing countries. In the current situation, I believe that the EEC has crossed over that boundary and in retaliation, the U.S. has done the same.

Table 4: Effect of Domestic Price Supports on Farm Returns

	<u>Domestic Oriented Producers</u>	<u>Export Oriented Producers</u>
Domestic Supported Price (\$/tonne)	200	200
Export Selling Price (\$/tonne)	100	100
Sales Domestic (%)	80%	20%
Sales For Export (%)	20%	80%
Average Price (\$/tonne)	180	120
Difference		60.00
Average Export Price Needed by Domestic Oriented Producer to Break-even with Export Oriented Producer (\$/tonne)		
	-200.00	

The 50% drop in the export price of wheat that has occurred since 1984/85, while injurious to all major exporters, has been particularly hard on the exporters who rely on export revenue to maintain their wheat producing sectors. The 50% drop in wheat export prices has had relatively little effect on the EEC-12 wheat situation. This would have been the case even if EEC producers were not totally insulated from the export sales prices. It is incredible that U.S. policy makers did not realize these simple truths before attacking the EEC CAP through lower export prices. It is now painfully evident that the real casualties of this strategy are the export oriented producers who cannot obtain the necessary support from their respective governments, namely, Australia and Argentina. It is my belief that Canadian grain producers will survive the current trade crisis due to their competitiveness and the special support programs from the Federal Government. In 1986/87, the Canadian Government supported cereal grain income and stated its further support for producers through the duration of the grain trade war. Returns from the marketplace have declined but Canada will hold its ground. However, our producers will not be fully insulated from price effects. While many individual farmers may be forced into bankruptcy, I think it is fair to say total production will only drop marginally. The U.S. and the EEC will receive little satisfaction from Canada. The following graph shows that Canada has held a fairly constant share in the world market over a number of years.

EXPORTS OF WHEAT AND WHEAT FLOUR BY PRINCIPAL EXPORTERS
1962 to 1986



In the past, Canada and Australia have developed systems whereby export returns were directly reflected to the producer. These returns have been the primary source of producer income. Thus, the export market is an integral part of economic growth and development in Canada. Government intervention in the Canadian grains sector focused upon regulation to ensure an equitable and efficient marketing system that would deliver a quality product while operating in the best interest of producers. In Canada, our policies which affect income have concentrated on stabilization of aggregate net farm income while

allowing market signals to have their full impact over time. Higher domestic prices have at times been a part of the Canadian system, but the impact of these policies was highly diluted due to the small size of the domestic market. There had been no attempt in Canada, Australia or Argentina to guarantee returns to producers without regard to the export market.

The comparative advantage of the export oriented grain producers is currently being outweighed by the use of the competitive advantages of the EEC and the U.S. The competitive advantage of the U.S. and EEC-12 in the export market is a large, high income domestic population that is willing to support producers income and dump their excess production in the international market. The U.S. and EEC, however, have chosen to exploit their competitive advantages through different mechanisms.

The U.S. supports its grain producers largely through the tax base as deficiency payments, storage payments, transportation subsidies, and the Export Enhancement Program (EEP) direct export subsidies. The capacity and willingness of the U.S. taxpayer to pay for wheat production and export movement is a tribute to the public relations effort of U.S. producer and merchandiser lobby groups. The direct costs of U.S. farm programs in F.Y. 1986 have increased to around U.S. \$26 billion from about U.S. \$3 billion in the early 1980's. In addition to direct taxpayer support, the U.S. consumer is now paying U.S. \$25-30/tonne for wheat above what the U.S. is receiving on average for the same wheat in the export market due to the Export Enhancement Program.

The EEC, through the CAP, directs the transfer of income to producers predominantly through high and stable domestic prices to consumers. The EEC tax base is used, however, for management of the grains produced. The taxpayer is responsible for management of the intervention system and for the removal of stocks from the EEC with export rebates. The taxpayers of member nations also contribute substantially to farm income outside of the CAP. EEC expenditures have become a significant burden on consumers and taxpayers. This has been estimated at U.S. \$900 for every non-farm European family. Income transfers through national subsidies outside the CAP would increase this estimate considerably, perhaps by an additional 50 percent.

Because of the lucrative nature of government support and export policies, producers, storage and handling firms, and grain merchandising firms support and lobby for selective changes to government policies which increase returns to their specific interest group. It is painfully evident that the marketing profits and returns to capital are much higher in the U.S. and EEC where governments are constantly reacting to pressure by producers and merchandisers rather than coordinating agricultural policy relative to the society's best interests. The EEC budget control committee reports that about 10% of agricultural spending, or about U.S. \$3.4 billion, are lost each year through fraud and abuse of farm programs. The 1985 Farm Bill of the U.S. has been successful in creating new markets, in particular a certificate market in which nonproductive economic games such as "PIK and Roll" become the focus of the creative energies of producers and the trade alike.

Farm Programs and Competitiveness

Much discussion of agricultural subsidies has taken place in international gatherings in recent months. Important statements of intention were released following the annual Organization for Economic Co-Operation and Development (OECD) meeting in May and the Venice economic summit in June 1987. These statements might lead some to conclude that the current crisis is over, and we are well in to the long-term process of reforming agricultural trade. However, agreements to end current subsidy practices will be slow to develop, and the lagged impacts of such changes will even be slower. The immediate problem of highly subsidized, low prices remains. U.S. EEP sales of wheat and barley demonstrate that the farm equivalent of many export sales is very close to zero.

In the past few years there has been considerable work carried out to compare the extent of farm subsidization. The most recent is the OECD notion of the Producer Subsidy Equivalent (PSE's). In effect, such an index might be called a Sin Index and potentially could be used to represent Cardinal Sin among the major wheat exporters. In any event, I think most of those present would agree the following ordinal index represents an accurate ranking of these sinners. There is little question that the EEC ranks at the head of the list, closely followed by the U.S. Argentina taxes rather than subsidizes wheat production and deserves its favourable ranking at the end of the list. Australia would be in fourth place and Canada in the middle.

Support Index of Grain Subsidies

1. EEC
2. United States
3. Canada
4. Australia
5. Argentina

It is noteworthy that this index approximates the ranking for the competitive advantage which these countries display in their ability to subsidize agriculture. The EEC, as a group of developed countries with the most domestically oriented agriculture, can best afford to subsidize through high internal domestic prices. The United States follows with both a significant domestic market and a highly developed industrial economy to support its agriculture sector. Of the export dependent countries, Canada is able to afford more support for its farmers due to the larger industrial base which we enjoy. Australia is extremely resource dependent and its only defence to falling grain prices has been a lower Australian dollar. Finally, Argentina, as a developing country facing severe credit problems, is in the position least able to afford expensive farm programs. This list could be readily extended to include on one hand Japan, Switzerland, the Scandanavian countries, particularly Sweden, and several other developed countries which would compete with the EEC for first place, and on the other hand many developing countries which would compete with Argentina for last place.

Economic Ability to Respond to Farm Lobby

1. EEC
2. United States
3. Canada
4. Australia
5. Argentina

The point of this exercise is to illustrate that our sin, or lack of it, does not derive from moral conscience as much as it does from economic circumstance. It is for this reason that in the long term, agreed rules under the GATT are so important. Otherwise, agriculture support that is seen to be appropriate for a given circumstance and a given level of technology becomes institutionalized, leading to the distorted type of situation we have today.

Revenue: The Forgotten Variable

"USDA's Economic Research Service tickled to death over the farm export picture... The reasons: rising response to lower prices, a less expensive dollar, and a combination of growing foreign demand because of reduced foreign supplies."

The Farm Paper Letter - June 19, 1987.

I'm sure that many here have the impression that as far as the United States is concerned, the worst is over in the grain sector. U.S. policy makers and farm leaders are beginning to generally indicate that the Export Enhancement Program and the 1985 Farm Bill have been positive in terms of the U.S. export picture. When policy makers discuss the elasticity of world cereal demand in the public forum, however, they generally talk in terms of lower prices inducing increased consumption. This only implies that there is a negative relationship between export prices and export demand. That is, as price declines the amount demanded increases. While this may come as a surprise to politicians, I am sure that none in the audience will be surprised that the

demand curve is downward sloping. The 1985 Farm Bill, however, is built on the cornerstone of U.S. export demand being "elastic". That is, as price decreases, demand increases such that the resulting revenues from export sales will increase. The following discussion illustrates clearly that this has not occurred since the 1985 Farm Bill price cuts have taken place.

Table 5 shows the U.S. wheat exports in terms of quantity, average price and value received for fiscal years 1980 to 1987. This table shows that since F.Y. 1985, the approximate period of operation of the 1985 Farm Bill, U.S. wheat exports have decreased in price by 30%, and in value by 24%, while quantity has only increased by less than 1.5 million tonnes or 5%.

Table 5: U.S. Wheat Exports

<u>Fiscal Year</u> <u>(Oct.1-Sept.30)</u>	<u>Value</u> b1n US\$	<u>Value</u> <u>Index</u>	<u>Quantity</u> MT	<u>Quantity</u> <u>Index</u>	<u>Average</u> <u>Price</u> US \$/tonne	<u>Price</u> <u>Index</u>
1980	6.3	148.3	36.1	126.4	175	117.4
1981	7.7	180.8	42.2	148.1	182	122.1
1982	7.4	174.4	44.6	156.4	167	112.1
1983	5.9	138.6	36.7	128.7	161	108.1
1984	6.5	152.4	41.7	146.2	156	104.7
1985	4.3	100.0	28.5	100.0	149	100.0
1986	3.3	76.5	25.5	89.4	128	85.9
1987*	3.2	76.5	30.0	105.2	105	70.5

* Projected

Source: USDA FAS Export Markets for U.S. Grain and Products

The following questions underline some fundamental points of importance to those interested in U.S. Farm policy:

1. Given that the F.Y. 1987 average export price has been lowered to U.S. \$105/tonne, what level of wheat exports is necessary to provide the same export revenue as in F.Y. 1985 when export prices averaged U.S. \$149/tonne? That is, if the elasticity of demand for U.S. wheat were unitary, how much would exports have had to increase just so the U.S. broke even with 1985 revenue using a low price strategy?

The answer is 40.6 million tonnes of U.S. wheat exports, compared to the current expected level of 28-30 million tonnes.

2. If export prices for wheat had remained at the F.Y. 1985 level of U.S. \$149/tonne, how much would U.S. exports had to have fallen to result in lower export revenue than the \$3.0 billion that is presently expected in F.Y. 1987? That is, had the U.S. maintained a \$3.30 loan rate for wheat, what level of exports would have generated the same revenue as will be realized in 1987.

The answer is an astounding 20.3 million in tonnes. Clearly impossible given the fundamentals of other exporters. Australia and Argentina have no excess stocks, and there is no reason to believe that Canadian actions would have been different under a higher price scenario. Indeed all the talk of low prices and further extension of EEP would tend to increase export competition under the low price strategy.

3. If we assume that world wheat trade does, as USDA has suggests, exhibit price elastic demand in the medium or long-term, how much greater than unitary price elasticity does it have to be to compensate for the short run losses of export revenue?

U.S. annual revenue from wheat exports has declined \$1.3 billion since 1985 due to export pricing policies initiated by USDA. The drop in export revenue will likely remain until the U.S. changes its pricing strategy. Given the annual loss to the U.S. economy in the near term and expectations that this loss will exist at least until the end of the 1985 Farm Bill, the future gains using even the highest estimates of demand elasticity are unlikely to offset the near term losses.

Table 6 illustrates the situation in U.S. corn exports in terms of quantity, average price and revenue for fiscal years 1981 to 1987. U.S. corn exports for F.Y. 1987 show a 38% drop in export price and a 19% drop in exports resulting in a 50% decline in export revenues since F.Y. 1985, i.e., the end of the 1981 Farm Bill.

Table 6: U.S. Corn Exports

<u>Fiscal Year</u> (Oct. 1- Sept. 30)	<u>Value</u> bTn US \$	<u>Value</u> <u>Index</u>	<u>Quantity</u> MMT	<u>Quantity</u> <u>Index</u>	<u>Average</u> <u>Price</u> US \$/tonne	<u>Price</u> <u>Index</u>
1981	9.0	155.4	59.4	128.0	151	120.8
1982	6.0	103.3	49.6	107.2	120	96.0
1983	5.7	99.1	47.1	101.8	121	96.8
1984	7.0	121.3	47.0	101.5	149	119.2
1985	5.8	100.0	46.3	100.0	125	100.0
1986	3.3	57.1	31.1	67.3	106	84.8
1987*	2.9	50.3	37.7	81.4	77	61.6

* Projected

Source: USDA - FAS Export Markets for US Grain and Products

Asking the same questions for corn export revenue as for wheat leads to the following answers:

1. U.S. corn export revenue in F.Y. 1985 was \$5.8 billion at an average price of \$125/tonne and an export level of 46.3 million tonnes. USDA has since caused the average corn export price to fall to \$77/tonne in F.Y. 1987. At this average export price, the U.S. would have to export 75 million tonnes of corn to achieve the same level of export revenues as in F.Y. 1985.
2. USDA currently expects corn export revenue of \$2.9 billion in F.Y. 1987. If the USDA price policy had resulted in export prices averaging U.S. \$125/tonne (as in F.Y. 1985), corn exports would have to drop below 23.2 million tonnes before export revenue dropped below the current years export revenue.
3. The U.S. now receives approximately \$2.0 billion less per year from corn exports solely as a result of lower export prices. The long-term demand would have to be incredibly elastic to offset these short-term losses.

The futility of the price cutting strategy of USDA should be evident by the comparison of 1986 and 1987 corn export statistics. In F.Y. 1987 the U.S. expects to increase corn exports by 6.6 million tonnes due to highly competitive export pricing which cut the average export price \$29/tonne to an average \$77/tonne in 1987. Despite the significant increase in corn exports, the export revenue resulting from total exports will decrease almost \$400 million relative to F.Y. 1986.

Concluding Comments

My presentation regarding the current crisis in the grain sector has attempted to focus on some fundamental points of importance, some of which I believe have been missed in the debate.

1. In the current environment the economic concept of gains from trade seems to have been forgotten, particularly by those countries whose agricultural policies are domestically oriented. Major exporters are now conducting business which is reducing the economic wealth of their nation resulting in gains only to importers.
2. There exists considerable confusion between the concepts of downward sloping demand and elasticity of demand with regards to U.S. grain export policy, particularly in the public forum when trade and market expansion are discussed. The fact that a major drop in price was followed by a minor increase in sales does suggest that demand has some slope, but it also suggests demand for grains is highly inelastic.
3. A close examination of U.S. export earnings from grain reveals the futility of the current low price strategy pursued by the United States. Even a unilateral policy of maintaining 1985 loan rates would have generated considerably more export earnings than does current policy.

4. The U.S. seems content to follow a "lose-lose strategy" in which the concept of gains to trade is dropped for one of imposing misery on other exporters, particularly the EEC. If such a strategy can be even remotely justified it must be done on long term grounds. But even on these grounds one must ask if the U.S. will ever recover the unnecessary export revenue losses sustained during the current period. In addition, if the marketplace is to be cast aside through such mechanisms as high target prices and export subsidies, would it not be better to pursue some cooperative strategies with the non-EEC exporters during this period of crisis.

5. It is clear that recent price reductions and intense competition have changed neither trade volumes nor market shares to any great extent. It is also clear that a reversal of this process, that is a reduction of EEC export rebates and EEP bonuses, need not alter export volumes nor trade shares. This is a trade war. While helpful, it is not enough for the two antagonists who have dug their trenches and stocked their supplies to reluctantly go along with a freeze in hostilities with vague notions of eliminating subsidies by the end of this century. A roll-back strategy of lower export subsidies and higher world prices can be achieved.

6. While pursuing these shorter term strategies, our countries must continue to press for rationalization of agriculture support through the General Agreement on Tariffs and Trade (GATT). Only through the adoption of internationally accepted fair rules of trade can the age old precepts of gains from trade and mutually beneficial commerce be realized.